PRACTICUM IN REAL ESTATE - THESIS
FALL 2008

DEVELOPMENT OFFERING FOR:

1700 M STREET, NW
WASHINGTON, DC

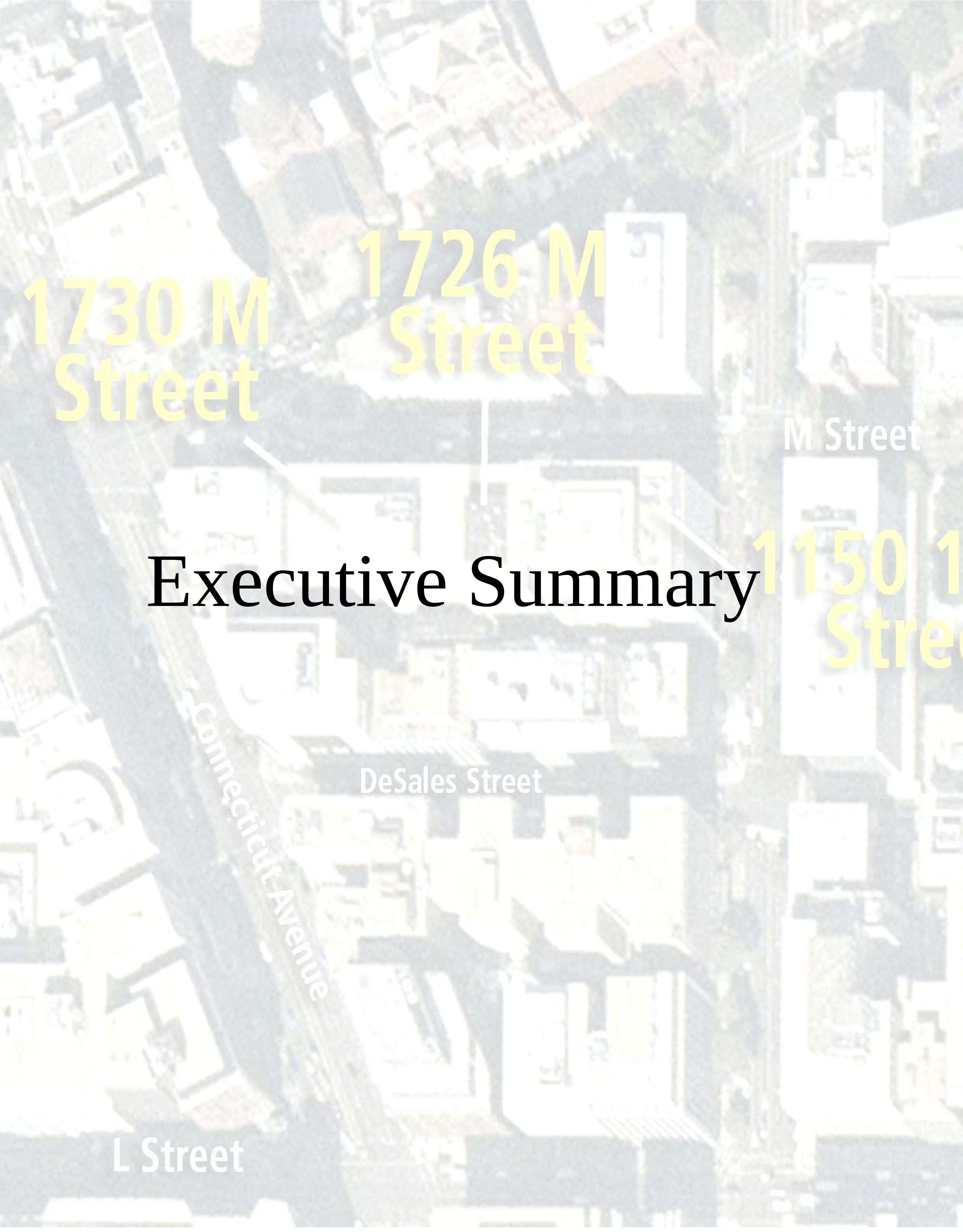
PREPARED FOR:
Edward A. Ely

DECEMBER, 2008

GREGORY R BYRNES

Table of Contents

Executive Summary



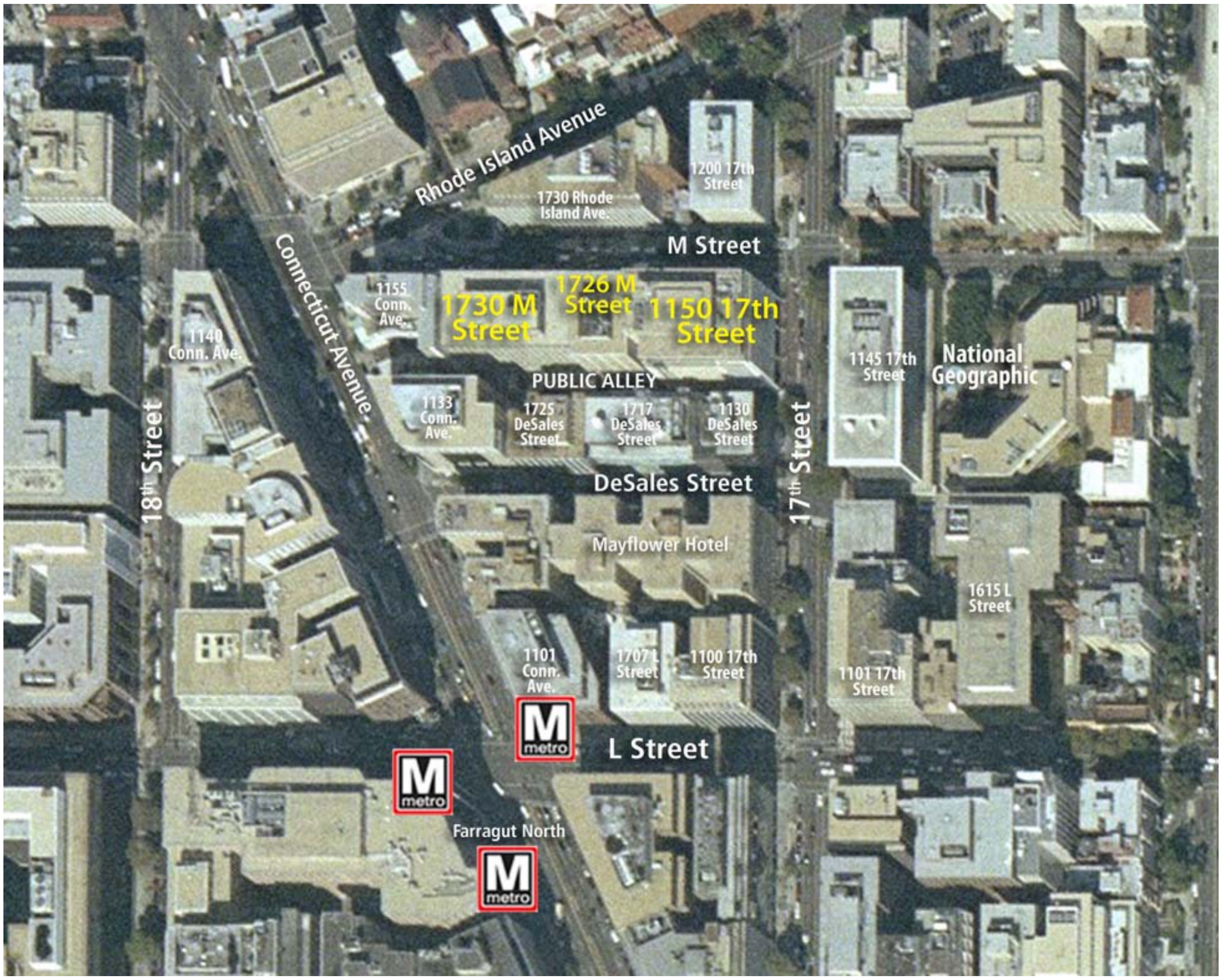
1700 M Street, NW Redevelopment

Executive Summary

Byrnes Development, LLC "developer" is pleased to present a rare opportunity to co-invest in the redevelopment of three existing office buildings located in Washington, DC. The redevelopment will be a 612,831 square feet office and with street level retail. The building will also have parking and concourse office space. There will be four levels below with the first, a concourse level and the three below will be parking. The redevelopment will be the future home to 1700 M Street, NW "Project". The project will be a unique opportunity to construct a large block of trophy office space in downtown Washington, DC. The developer is evaluating three different investment scenarios for a potential equity partner.

The site is located on M Street and 17th Street currently occupied by three Class "B" office buildings: 1730 M (11-stories); 1726 M (11-stories); and 1150 17th Street (12-stories). Through the creative use of single lot of record the three buildings will take advantage of the increase in Floor Area Ratio "FAR" by using the wider street, 17th Street, to increase it's FAR from 8.5 to a 10. The increase in FAR is an aggregate increase in square footage of 107,959. Presently, the three buildings are completely separate in every way. They do not share a garage, retail, storage or office space. A total redevelopment is the only option because each buildings floors are at different heights.

The three Class "B" buildings built between 1964 and 1970 will become functionally obsolete and will require a substantial amount of capital improvements in seven years, which is the time frame we are proposing to redevelopment. The Developer is seeking an equity partner who will benefit from relatively low land basis and the opportunity to develop a Trophy quality building in the Central Business District "CBD" of Washington, DC. An aerial photograph is provided on the following page of the three properties.



The three properties are currently 91% leased to 129 tenants with short and long term leases. One of the buildings has a portion of the ground on a ground lease through 2061. Aside from the ground lease interest, the buildings are owned by one owner. The developer is proposing to buy-out the ground lease before redeveloping the buildings. The developer will also work to de-tenant the buildings over time. The sections following will provide a frame work for the developer's redevelopment project.

Market Overview

Washington Metropolitan Area Demographic and Economic Overview

General Background

The Washington, D.C. Metropolitan Region is unique among American markets. As our nation's capital, Washington serves as a focal point for our country both politically and economically. The city is the hub of the fourth largest metropolitan population in the United States. As the capital city of the world's largest consumer and commercial market, it attracts lawmakers, tourists, students, business and commerce from all over the world. Some business leaders have dubbed Washington a "recession proof" city because it is more insulated from the typical economic volatility by the stabilizing influence of the federal government.

Area Definition

Greater Washington, as defined by the Greater Washington Board of Trade contains approximately 6,000 square miles encompassing the District of Columbia, Northern Virginia and Suburban Maryland.

Largest US Consolidated Metropolitan Area Populations, Change 2000-2007

Rank	Metropolitan Area	2000	2007	Percent Change
1	New York City	21,402,067	21,961,994	+2.6%
2	Los Angles	16,438,250	17,755,322	+8.0%
3	Chicago	9,333,201	9,745,165	+4.4%
4	**Greater Washington**	**7,603,868**	**8,241,912**	**+8.4%**
5	Boston	7,317,865	7,476,689	+2.2%
6	San Francisco	7,116,334	7,264,887	+2.1%
7	Dallas	5,524,855	6,498,410	+17.6%
8	Philadelphia	6,214,112	6,385,461	+2.8%
9	Houston	4,840,123	5,729,027	+22.7%
10	Atlanta	4,584,707	5,626,400	+22.7%

Source: US Bureau of the Census and Demographia

Population Base

According to the Greater Washington Board of Trade's analysis, Greater Washington ranks fourth in total population based on 2007 estimates. The Washington Metropolitan area's population increased by 638,044 or 8.4% between 2000 and 2007 census tabulations. An average of 79,000 people per year moved into the area during this time span.

The paradigm fueling the growth of the 1990's was the change from a public sector dominated workforce, to a high technology private sector workforce. Circumstances changing the occupational demographics were federal government downsizing, which transplanted many jobs to the private sector via specialized government contractors, and the multi-faceted growth of the Internet and the service sector.

On the following page is a chart showing the population and population changes from the census in 1980, 1990 and 2000.

Population & Population Changes: 1980 - 2000 Censuses.

	1980	1990	2000	1980-1990	1990-2000
Washington, DC	638,333	606,900	572,059	-4.9%	-5.7%
Arlington County, VA	152,599	170,936	189,453	12.0%	10.8%
City of Alexandria, VA	103,217	111,183	128,283	7.7%	15.4%
Total Central Jurisdiction Population	**894,149**	**889,019**	**889,795**	**-0.6%**	**0.1%**
Fairfax City, VA	19,390	19,622	21,498	1.2%	9.6%
Fairfax County, VA	596,901	818,584	969,749	37.1%	18.5%
Falls Church City, VA	9,515	9,578	10,377	0.7%	8.3%
Montgomery County, MD	579,053	757,027	873,341	30.7%	15.4%
Prince George's County, MD	665,071	729,268	801,515	9.7%	9.9%
Total Inner Suburban Population	**1,869,930**	**2,334,079**	**2,676,480**	**24.8%**	**14.7%**
Anne Arundel County, MD	370,775	427,239	489,656	15.2%	14.6%
Calvert County, MD	34,638	51,372	74,563	48.3%	45.1%
Charles County, MD	72,751	101,154	120,546	39.0%	19.2%
Frederick County, MD	114,792	150,208	195,277	30.9%	30.0%
Howard County, MD	118,572	187,328	247,842	58.0%	32.3%
Loudoun County, VA	57,427	86,129	169,599	50.0%	96.9%
Manassas City, VA	15,438	27,957	35,135	81.1%	25.7%
Manassas Park City, VA	6,524	6,734	10,290	3.2%	52.8%
Prince William County, VA	144,703	215,686	280,813	49.1%	30.2%
Stafford County, VA	40,470	61,236	92,446	51.3%	51.0%
Total Outer Suburban Population	**976,090**	**1,315,043**	**1,716,167**	**34.7%**	**30.5%**
Total Metro Area Population	**3,740,169**	**4,538,141**	**5,282,442**	**21.3%**	**16.4%**

Source: U.S. Census Data, total population does not include other jurisdictions that are included in the Consolidated Metropolitan Population on page one of section two.

The 1990's saw a continued shift in population as the outer suburbs outgrew the close-in suburbs and the capital city. The District of Columbia was the only local jurisdiction that had a decrease in population over the last ten years as residency dropped by 34,800 people. While the District of Columbia has fewer citizens than it had ten years ago, population in the Maryland suburbs increased by 16.6%, or 399,400, while the Virginia suburban population increased 25.1%, or 366,800. The exodus from the city and inner suburbs has slowed considerably in the past eight years. Political and social changes in the District have created a turnaround in residency patterns and helped the city perform much better than estimates that had predicted a 91,800 person drop in population during the 1990's. One of the causes for this location transformation is the stifling commuter traffic that has become a byproduct of the outer regions' exorbitant growth and the residents' desire to remove this daily burden.

During the 1990's, the Maryland counties of Howard, Calvert, and Charles were the fastest growing while in Virginia, Stafford, Loudoun, and Prince William Counties experienced the strongest growth. Not coincidentally, all of these jurisdictions are outer-suburban counties. The more mature, close-in counties sustained a slower, more methodical growth, which stands as a testament to their pro-business and managed growth culture. Arlington County in particular has prospered, capitalizing on Metro station openings in the late 1980's, which created new residential growth nodes, primarily in the Ballston and Court House submarkets.

Patterns of change in households are equally as important as population changes, due to their effect on property values. From 1990 to 2000, there was a 17.9% increase in the number of households in the Washington Metropolitan Area.

Number of Households and Household Changes: 1980 - 2000 Censuses and 2006 Projection from Claritas

	1980	1990	2000	2006 Projection	1980-1990	1990-2000	2000-2006 Projection
Washington, DC	253,143	249,634	248,338	251,719	-1.4%	-0.5%	1.4%
Arlington County, VA	71,615	78,520	86,352	91,976	9.6%	10.0%	6.5%
City of Alexandria, VA	49,004	53,280	61,889	64,363	8.7%	16.2%	4.0%
Total Central Jurisdictions	**373,762**	**381,434**	**396,579**	**408,058**	**2.1%**	**4.0%**	**2.9%**
Fairfax City, VA	6,881	7,362	8,035	8,483	7.0%	9.1%	5.6%
Fairfax County, VA	205,166	292,345	350,714	380,081	42.5%	20.0%	8.4%
Falls Church City, VA	4,250	4,195	4,471	4,973	-1.3%	6.6%	11.2%
Montgomery County, MD	207,195	282,228	324,565	346,610	36.2%	15.0%	6.8%
Prince George’s County, MD	224,789	258,011	286,610	300,825	14.8%	11.1%	5.0%
Total Inner Suburban Area	**648,281**	**844,141**	**974,395**	**1,040,972**	**30.2%**	**15.4%**	**6.8%**
Anne Arundel County, MD	121,028	149,114	178,670	190,822	23.2%	19.8%	6.8%
Calvert County, MD	10,731	16,986	25,447	29,842	58.3%	49.8%	17.3%
Charles County, MD	21,378	32,950	41,668	45,458	54.1%	26.5%	9.1%
Frederick County, MD	37,499	52,570	70,060	79,002	40.2%	33.3%	12.8%
Howard County, MD	39,989	68,337	90,043	108,230	70.9%	31.8%	20.2%
Loudoun County, MD	18,653	30,490	59,900	79,565	63.5%	96.5%	32.8%
Manassas City, VA	5,048	9,481	11,757	12,951	87.8%	24.0%	10.2%
Manassas Park City, VA	1,858	2,182	3,254	2,568	17.4%	49.1%	-21.1%
Prince William County, VA	43,790	69,709	94,570	108,025	59.2%	35.7%	14.2%
Stafford County, VA	12,172	19,415	30,187	35,057	59.5%	55.5%	16.1%
Total Outer Suburban Area	**312,146**	**451,234**	**605,556**	**691,520**	**44.6%**	**34.2%**	**14.2%**
Metro Area Total	**2,668,378**	**3,353,618**	**3,953,060**	**4,281,100**	**25.7%**	**17.9%**	**8.3%**

Source: 1980 - 2000 U.S. Census Data and 2006 Projection Provided By Claritas, Inc.

The average household size decreased slightly from 2.70 in 1990 to 2.67 in 2000. Current trends would indicate that this average household size will remain constant throughout the 2000's. The reduced average household size reflects the increasing number of single-person households and the growing trend of couples delaying childbirth. As may be expected, the average household size is greater in the more distant suburban areas, reflecting the desire of families to locate where housing is more moderately priced.

Employment Characteristics

The Washington D.C. metropolitan area is often referred to as a "recession proof" city insulated from the real effects of unemployment and major economic fluctuations. This characterization stems from the influence of the federal government as the area's largest employer. While the presence of the federal government provides stability not seen in any other major urban center, the region has established a more diverse economic climate over the past decade. The region enjoyed a period of unusual growth during the 1980's, when the economy grew at an average rate of 5% per annum. Except for the recession from 1992 – 1994, the region was on a torrid job creation pace throughout the 1990's. In the early 2000's, the bust of the dot-com bubble, the terrorist attacks of September 11 and the overall economic slowdown of the past year have had an effect on the area. During the last downturn in 2001, the area unemployment rate was 3.2% and currently as of July 2008 the unemployment is 4.1%. Presently, regional unemployment is healthy compared to the national unemployment at 5.7% for the same period. The region's job growth for the twelve months ending July 2008, showed a gain of 35,400 jobs, an increase of 1.2%. During the same period, national's jobs decreased by 283,000, a decline of 0.2%. The Greater Washington area has shown resilience during difficult economic times. During 2000 to 2005, Greater Washington led the US in job growth with 270,000 new jobs over the five year period. In 2008, it's projected that the Greater Washington area will net 23,900 new jobs. Jobs are also projected to increase in 2009 and 2010 to 29,000 and 42,500 new jobs, respectively.

The most dramatic change to employment in the Washington area has been the emergence of the service sector as the fastest growing and now largest employer. In 1960**,** the services industry employed 18% workers, compared with 33% for government. Currently, the federal government (local-state-federal) employment has fallen to 21% of all jobs in the region and services industry employs 23% of the region. The chart below will show the trends in major sectors and the growth over the last twelve months ending July 2008.

Employment by Major Sector Washington Metro Area (In 000's of Payroll Jobs)				
	July 2007	July 2008	12 month Growth	15 yr Avg.
Government	630.3	647.3	17.0	3.1
Pro. / Bus. Svs.	683.9	695.5	11.6	20.6
Edu. / Health	318.3	327.9	9.6	8.1
Other	182.0	189.2	7.2	4.5
Transport. / Util.	63.8	65.0	1.2	0.2
Leisure / Hosp.	265.6	266.5	0.9	5.1
Whole. Trade	70.7	71.0	0.3	0.7
Retail Trade	270.9	270.0	-0.9	3.1
Manufacturing	62.9	61.8	-1.1	-0.3
Information	94.2	92.5	-1.7	0.8
Financial	160.3	156.7	-3.6	2.1
Constr. / Mining	188.9	183.8	-5.1	5.4
Total	2,991.8	3,027.2	35.4	53.4

Source: Bureau of Labor, Delta Assoc.; Sept. 2008

Job Growth by Sector

According to the September 2008 Delta Associates report, the jobs sector can be broken up into two main sectors: Service Providing and Goods Producing. The Service Providing sector includes: Government; Professional and Business Services; Education and Health; Other; Leisure and Health; Transportation and Utilities; Wholesale Trade; Retail Trade; Information; and Financial. The Goods Producing include: Manufacturing, Construction and Mining. The Service Producing sector increase jobs by 41,600 over the last twelve months ending July 2008. The Goods Producing sector lost 6,200 jobs over the same time.

The top three sectors are the following: Government; Professional and Business Services; and Education / Health. The Government's increase in job growth was due mainly to local governments adding jobs. A large increase, 17,000 jobs, over what historically has grown at 3,100 jobs. The

Professional and Business sector saw an increase in jobs, but well below the fifteen year average of 20,600. Lastly, Education /Health sector saw an increase of 9,600, only slightly better than the fifteen year average of 8,100.

The job sector with the largest decline is Construction and Mining with a loss of 5,100 for the year ending July 2008. A majority of these jobs were construction related and mostly concentrated in Northern Virginia area.

The largest job sector and more specifically the non-government service sector growth is the driver for the new office development in the Greater Washington area. Included is a list of the region's top private employers ranked by total revenue in 2006 is displayed below.

LARGEST PRIVATE EMPLOYERS - RANKED BY TOTAL REVEUE IN 2006 FOR METRO AREA

Rank	Company	Business	2006 Revenue
1	Mars	Consumer Goods	$18.00 B
2	Geico	Insurance	$4.32 B
3	Booz Allen Hamilton	Consulting	$3.70 B
4	Clark Enterprises	Construction	$3.22 B
5	Discovery Communications	Media	$3.01 B
6	HMS Host	Hospitality	$2.00 B
7	Gate Gourmet	Catering	$1.99 B
8	B.F. Saul REIT	Real Estate	$1.30 B
9	Paystaff/ProLease	Staffing	$1.23 B
10	Long & Foster	Real Estate	$1.08 B
11	Darcars	Auto Dealership	$1.08 B

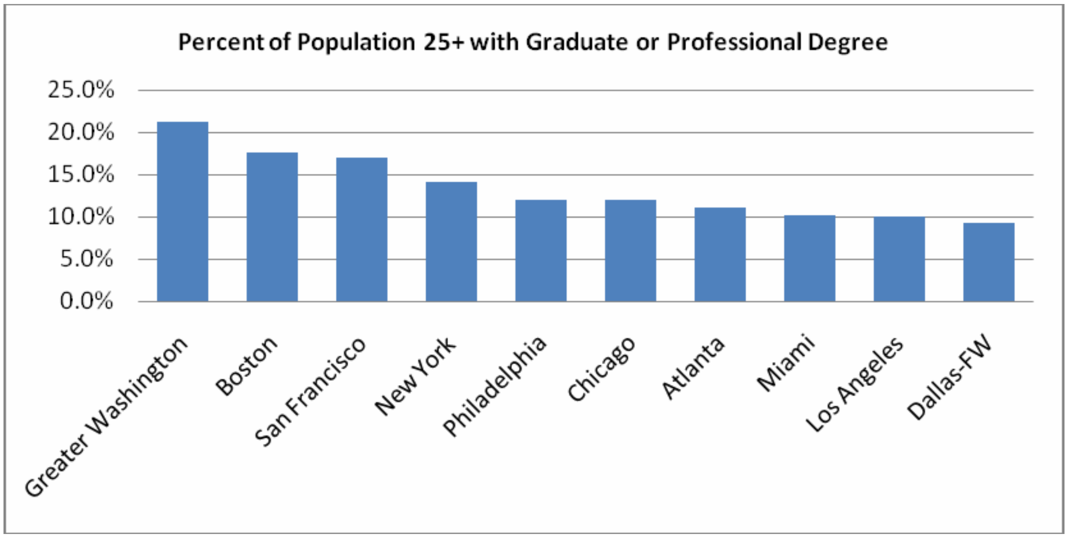
Source: Washington Business Journal, Book of Lists, 2008

Education

The Greater Washington area is home to more than 50 colleges and universities with 328,000 full-time students enrolled annually. The schools range from large public state funded universities to small private independent colleges. These institutions of higher learning have played an integral and vital role in shaping the region's workforce critical to the high technology and professional service oriented industries. The more prestigious establishments include The University of Maryland at College Park, Georgetown University, Catholic University, George Washington University, American University and Johns Hopkins University. These schools all offer broad based curriculums to their undergraduates, and highly specialized graduate and professional degrees for select students. The student body enrollments contain persons from diverse origins covering all 50 states and six continents.

In addition to having a multitude of traditional colleges and universities, the region is also home to a variety of technical schools and community colleges serving over 250,000 students, which is included in the 328,000 enrollment number. The largest of these is the USDA Graduate School, run by the Federal Government. The others include community colleges from virtually every county in the Greater Washington region.

The Greater Washington area consistently ranks in the top-10 in terms of higher education "performance" when compared to 60 competing metropolitan markets. The rating categories included technology degrees, higher education expenditures, and federal education grants and contract awards. In terms of the number of computer and info-tech graduates, the Greater Washington area ranks third behind Denver and New York. With numerous technology jobs remaining unfilled, the concentration by the area learning institutions to produce more technology related degrees is certain to increase. The chart on the following page shows the highly educated force is ranked number one in percentage of population with graduate degree or professional degree.



Source: 2006 Census American Community Survey, GMU Center for Regional Analysis & Greater Washington Initiative 2008 Regional Report.

Greater Washington Income

The Greater Washington area has low unemployment and a highly educated workforce so it is not surprising that the median household income ranks number one in the United States. In 2006 the Census Bureau ranked 3,000 counties in the nation and the top three counties are in the Greater Washington area. The chart below shows the top ten highest ranking counties in the area.

County	Median HH Income	Rank in the U.S.
Fairfax (VA)	$100,300	1
Loudoun (VA)	$99,400	2
Howard (MD)	$94,300	3
Montgomery (MD)	$87,600	8
Arlington (VA)	$87,400	9
Stafford (VA)	$85,000	11
Calvert (MD)	$84,900	12
Prince William (VA)	$80,783	18
City of Alexandria (VA)	$80,449	19
Charles (MD)	$80,179	20

Source: 2006 Census American Community Survey, GMU Center for Regional Analysis & Greater Washington Initiative 2008 Regional Report.

Transportation

The Capital Beltway (I-495) is one of the most important factors driving development in the Washington area. Stretching over sixty miles, it has linked the Maryland and Virginia suburbs and

significantly influenced real estate investment patterns. Land prices have risen steadily in the vicinity of the Beltway. Apartments, light industrial facilities, distribution warehouses, and shopping centers have been developed wherever the Beltway crosses other major highways. Closer-in sites have often been by-passed in favor of locations adjacent to the Beltway.

I-66, I-95, I-270, I-395, and I-295 are all spokes that complement the Capital Beltway hub system. These transportation corridors have added their own dimension to the area's real estate development patterns. This ready access to interstate travel and commerce has facilitated countless real estate developments of all property categories.

Mass Transit

The Washington Metropolitan Area Transit Authority (WMATA) provides transit service in Maryland, the District of Columbia, and Virginia, through both Metrorail and Metrobus operations. Equally as important as the Capital Beltway, the Metrorail system has altered real estate investment patterns in all the localities where it maintains a presence. Begun in 1969, the Metrorail system currently covers 106.3 miles of track with 86 operating stations. The construction of MetroRail has had a major impact on land values around the stations. It has spurred dramatic new development, both in downtown Washington and in suburban areas. Major new office and mixed-use projects have been built around the Metro stops. In particular, portions of downtown Washington near Metro Center, Navy Yard and the Rosslyn-Ballston Corridor in Arlington County have experienced an economic revitalization due to the opening of MetroRail.

WMATA's Metrobus system consists of a fleet of over 1,502 buses running seven days a week through most portions of the region. To complement WMATA's efforts, Northern Virginia and Suburban Maryland offer commuters the *DASH* and *RIDE ON* bus systems respectively.

Airports

With three major state of the art airports, Greater Washington offers passengers and cargo the ability to reach all parts of the globe. Ronald Reagan National Airport, located in Arlington County, is only four and one-half miles from the U.S. Capitol, and serves the downtown area. Transporting around 18.7 million passengers per year, with service to 74 non-stop destinations, it is known as one of the most convenient airports in the world.

Washington Dulles International Airport is bisected by the Loudoun County/Fairfax County line. The Dulles Toll Road provides quick access to the airport, from both the Capital Beltway (I-495) and Eastern Loudoun County. Situated on 11,800 acres, Dulles Airport continues to be a primary factor in the explosive growth of the regional economy of Northern Virginia. With federal regulations and lack of runway space prohibiting direct long range flights from National Airport, Dulles serves a premium niche in the region's travel patterns. Currently, 36 airlines service the airport with over 300 daily domestic departures and 12 daily wide body flights to nonstop destinations worldwide.

The Baltimore/Washington International Airport (BWI) is located in the southern portion of the Baltimore MSA in Anne Arundel County, ten miles from downtown Baltimore, and 30 miles north of Washington. With a new pier expanding international capacity, along with increased parking, BWI acts as the northern entrance to Greater Washington. Conveniently, located off of I-95 and the Baltimore-Washington Parkway, in 2007 BWI served over 21 million passengers by 31 commercial airlines. BWI also provides premium service to air-freight carriers with its 395,000 square foot Air Cargo Complex, 24 hour service from U.S. Customs, 24 hour cold storage facility, and special trade zone accommodations. It also happens to be the only airport in the region designated as an official port of entry by the U.S. Fish & Wildlife Service.

When compared with Dulles and Washington National Airport, BWI services 28% of commercial passengers, and 57% of freight customers. BWI has spawned the development of 15 new business parks and several hotels.

Summary

All outlooks, both short and long term, for the Greater Washington area continue to be vibrant. The expanding population of the area indicates an increase in demand for goods and services. A highly educated workforce will keep attracting corporate expansion and new businesses to the area in search of the most talented employees. On top of the empirical evidence making Greater Washington a superior place to live and work, is the notoriety it has received from major publications proclaiming these features.

- *Inc*. magazine's Hottest Regions for Fastest-Growing Companies list of 5000 companies, Washington, DC comes in a close second with 300 companies to New York with 355 companies.
- Gross Regional Product of $408 billion is the 4th largest in the nation, as reported by George Mason University's Center for Regional Analysis.
- Highest concentration of universities and hospitals of any area in the country.

With present and future trends signaling continued economic vitality for the region, the area's real estate market should flourish accordingly.

Washington, DC Metropolitan Office Market

Washington, DC Real Estate Profile

	3rd Qtr 08	YTD
Total Inventory	113,311,013	113,311,013
Total Space Available	8,887,798	8,887,798
Total New Space Available	2,882,632	2,882,632
Total Relet Space Available	5,185,403	5,185,403
Total Sublet Space Available	819,763	819,763
Vacancy Rate	7.8%	7.8%
Total Net Absorption	174,369	668,583
New Space Absorption	161,192	808,958
Relet Space Absorption	(139,244)	(322,645)
Sublet Space Absorption	152,421	182,270

Source: Cassidy & Pinkard, CoStar

The Washington, DC office market for the 3rd quarter of 2008 is still healthy with a vacancy rate of 7.8% compared to the national office market vacancy rate of 12.6%. According to Cassidy & Pinkard, rental rates have remained relatively flat for the DC market at $47 per square foot. The market continues to show positive net absorption through the third quarter and despite a slight increase of vacancy by 10 basis points there seems to be balance in the market.

The property that we are contemplating redeveloping is located in the Central Business District "CBD" submarket of Washington, DC.

CBD Real Estate Profile

	3rd Qtr 08	YTD
Total Inventory	36,239,690	36,239,690
Total Space Available	2,965,287	2,965,287
Total New Space Available	525,566	525,566
Total Relet Space Available	1,969,188	1,969,188
Total Sublet Space Available	470,533	470,533
Vacancy Rate	8.2%	8.2%
Total Net Absorption	31,815	(14,503)
New Space Absorption	73,734	261,328
Relet Space Absorption	(30,892)	(168,934)
Sublet Space Absorption	(11,027)	(106,897)

Source: Cassidy & Pinkard, CoStar

The CBD is the second largest submarket in the city and has been the heart of commercial activity in the downtown area for the past thirty years. The CBD accounts for 32% of the city's inventory and for 11% of rentable building area in the Greater Washington Region. Proximity to the White House and other federal institutions draws many tenants to this area. Easy access to the metro rail system has also been a boom as more commuters in the Washington area have come to rely on mass transit. The CBD's strong tenant base has drawn scores of retail establishments and restaurants to serve the area, amenities that less developed submarkets are unable to match.

Washington, DC’s CBD has been the primary submarket in the city for the past forty years. The area is bounded by 23rd Street, NW, on the west, P Street, NW, on the north, 15th Street, NW, on the east, and Virginia Avenue, NW, on the south. Many wide avenues, modest building heights, and abundant parks moderate the urban feel cast by its neo-classical and modernist architecture. With 36.2 million sq. ft. of office space, it is second largest amount of rentable building area in District of Columbia second only to the East End. Consequently, it has a large impact on the fortune of the city’s office market.

The reasons for the CBD's stature are numerous. Inertia and gravity have played a strong part in securing the cachet of the CBD. The region’s power elite have been reluctant to move and have continually attracted new neighbors. The cachet of proximity to the White House has been a historic draw for the area as well. Convenience is another strength of the submarket. The CBD is centrally located near the wealthiest neighborhoods in Virginia, Maryland and the District and is well served by the Metro rail system.

The CBD offers certain advantages over the other submarkets of Washington, DC. These advantages include:

- An existing infrastructure of first class social and athletic clubs including The Metropolitan Club, The Army and Navy Club, and The University Club;
- The Golden Triangle Business Improvement District (BID), which provides additional city services, such as security and trash pickup, to businesses located within the boundaries of the BID;
- Proximity to the affluent neighborhoods of Northwest Washington, DC, Montgomery, Arlington and Fairfax counties, resulting in shorter commuting distance and time;

- Major national retailers including Brooks Brothers, Ann Taylor, Talbots and Burberry have established Washington as a shopping destination;
- A central city location which reduces intra-city transit time;
- The highest concentration of four and five star luxury hotels in the region including the St. Regis Hotel, Hay-Adams Hotel, The Jefferson Hotel, Renaissance Mayflower Hotel, The Ritz-Carlton and Hotel Sofitel;
- A stable, prestigious tenant roster, including many national firms and well-established local firms;
- Well served by public transportation. Four Metro stops are well positioned within its boundaries making almost every building within a two-block walk.

The movement of high-profile law firms to the East End has threatened the CBD’s hegemony. Tenants were reluctant to move from the familiar, comfortable surroundings of the CBD to the comparatively less mature East End, but the constraints on large blocks of available space forced many large firms to relocate. The availability rate in the CBD should quell that trend as firms have more options for space within the submarket. The eastward expansion of the city has increased the amount of competition among landlords, but has not detracted from investors' or tenants' preference for the CBD.

New Developments

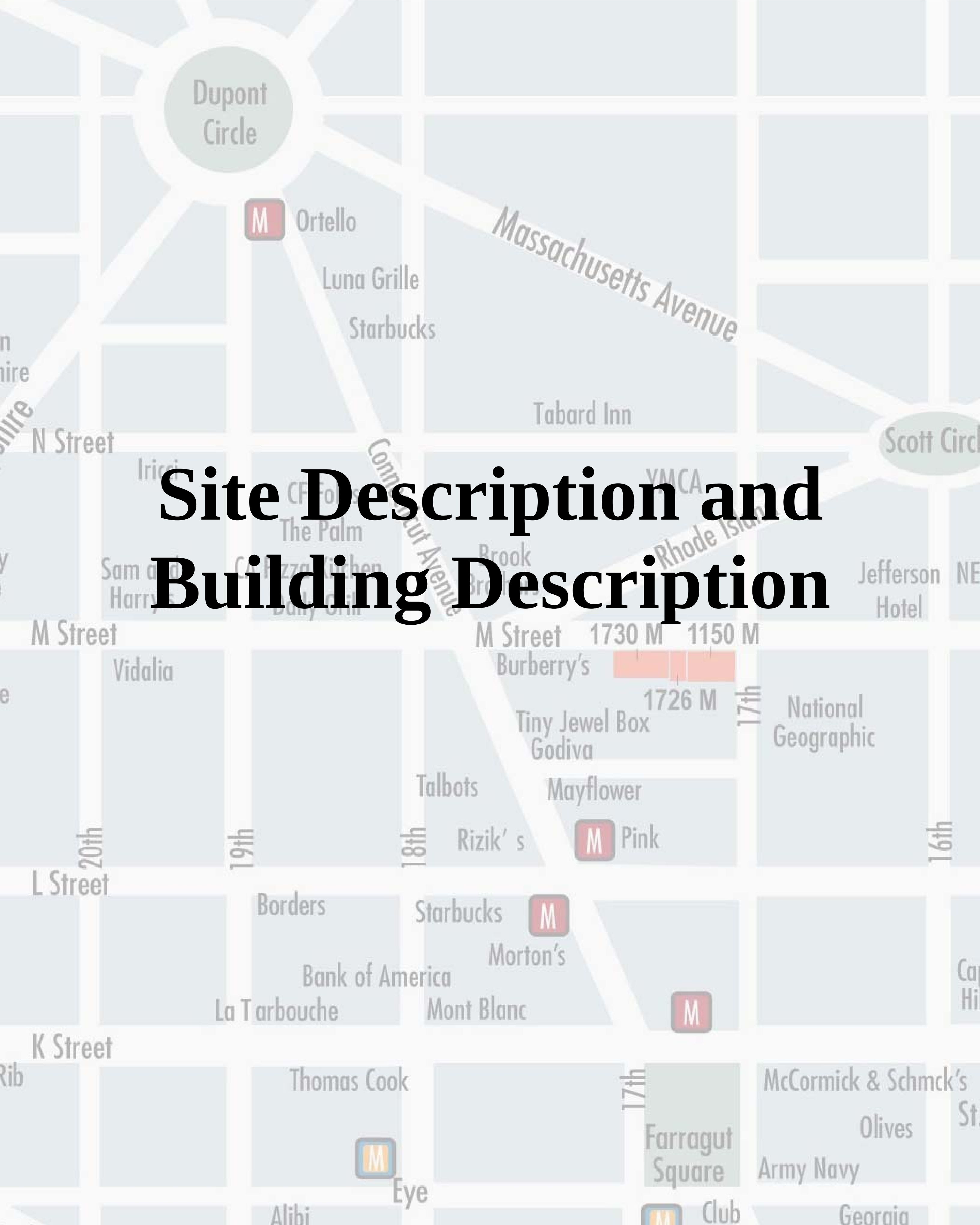
The CBD currently has no available land for ground up development therefore almost all of the new developments proposed or under construction are, or once were, existing office buildings. The development projects that are the most competitive to 1700 M Street are currently existing office buildings. In many cases, they are an assemblage of several buildings or the addition of floors over an existing building. Below is a chart of the competitive properties that are delivering in 2011 and beyond.

Development Projects - 2011 and Beyond

Name/Building Address	Total SF	Total Available	% leased	Delivery	Owner/ Developer	Comments
PNC / 800 17th Street, NW	365,000	297,000	19%	Jun-10	PNC/ Vornado/CES	
2175 K Street, NW	31,073	31,073	0%	Jan-10	Minshall Stewart	Additional floors on an existing building.
1050 17th Street, NW	150,000	150,000	0%	?	The Lenkin Company	Redevelopment of existing building.
2021 K Street, NW	156,000	156,000	0%	?	Rockrose Development	Redevelopment of existing building.
2200 Pennsylvania Avenue, NW	430,000	240,000	44%	Feb-11	Boston Properties	Former site of George Washington Hospital.
1000 Connecticut Avenue, NW	394,145	144,145	63%	Jan-10	Gewirz, Kaplan and Small	Corner of K Street and Connecticut Avenue, NW
1616 Rhode Island Avenue, NW	129,680	0	100%	?	CSIS	User building.
1900 L Street, NW	313,000	313,000	0%	?	Zuckerman Gravely	Multi-building assemblage.
2100 M Street, NW	111,000	111,000	0%	?	Hines	Additional floors on an existing building.
	2,079,898	1,442,218	31%			

The most competitive development projects based on the above analysis are 1900 L Street and 1050 17th Street. 1900 L Street is very similar to 1700 M Street in that the owner will have to de-tenant three office buildings: 1900 L Street, 1920 L Street and 1020 19th Street and the building will have a corner location. 1050 17th Street, NW is a redevelopment of an existing building. 1050 17th is a building that will be physical and functionally obsolete by the time the redevelopment is contemplated.

Site Description and Building Description



Site Description and Location Overview

The site is located in the Central Business District "CBD" and a business improvement district called the Golden Triangle. As mention in the market section, the CBD is the urban core of the city and home to many shops, hotels and restaurants. Below is a map of the Golden Triangle neighborhood, a business improvement district in the CBD.

The site is located on M Street, which is a prime commuting route and connects the site to the Georgetown/West End, Northern Virginia and other points west of the city. 17th Street to the east provides excellent access to locations North of the city. There are over a dozen restaurants within one block of the site, and eight hotels within three blocks of the site. Major hotels include the Mayflower Hotel, Jefferson Hotel and the Madison Hotel. Other points of interest within two blocks are the Cathedral of St. Matthew the Apostle, the Headquarters of the National Geographic and the University Club of Washington, DC. Located in the center of the city just a quarter block from Connecticut Avenue and two blocks from Massachusetts avenue opens the access for the surrounding suburban Virginia and suburban Maryland commuter routes.

The immediate neighborhood can be characterized primarily as office and retail. There are some hotel and residential properties close by but not close enough to create an issue when we begin redeveloping the properties. An amenities map is provided on the following page.

Location: The Site is located on M Street and 17th Street currently occupied by three Class "B" office buildings: 1730 M (11-stories), 1726 M (11-stories) and 1150 17th Street (12-stories). Immediately to the west of the properties on the corner of M Street and Connecticut Avenue is a 12-story Class A office building, 1155 Connecticut Avenue. Just south of the site is an public alley and south of the alley are five office buildings fronting De Sales Street, Connecticut Avenue and 17th Street. Starting on Connecticut Avenue and moving east is 1133 Connecticut Avenue (Class

A, 12-stories), 1725 De Sales (Class B, 9-stories), 1717 De Sales (Class B, 7-stories), 1705-1707 De Sales (Class B, 8-stories) and 1130 17th Street (Class B, 9-stories). Directly north across the street on M Street are two Class B office buildings, 1730 Rhode Island (12-stories) and 1200 17th Street (8-stories).

Site Composition: One rectangular lot consisting of seven tax parcels. Ownership of the seven tax parcels is currently divided between two groups – one owns four parcels, a second group owns three parcels. The GD Grosner ownership ground leases their interest to the Vornado/ Charles E Smith ownership.

1700 M Street - Tax Parcels

Square	Lot	Address	Owner	Land Area (SF)	% of Land (SF)
0162	37	1730 M Street, NW	GD Grosner c/o Smith & Vornado	3,192	5.6%
0163	38	M Street, NW	GD Grosner c/o Smith & Vornado	3,192	5.6%
0165	807	M Street, NW	GD Grosner c/o Smith & Vornado	4,788	8.3%
0166	808	M Street, NW	GD Grosner c/o Smith & Vornado	4,788	8.3%
0164	74	M Street, NW	Vornado/ Charles E Smith	7,980	13.9%
0167	77	1726 M Street, NW	Vornado/ Charles E Smith	10,640	18.5%
0168	95	1150 17th Street, NW	Vornado/ Charles E Smith	22,876	39.8%
			Total	57,456	100.0%

Size: Approximately 57,000 square feet or 1.32 acres.

Topography: Generally flat, with a slight slope downhill towards the public alley to the south.

Access: Vehicular access is provided on M Street and 17th Street. M Street is a one-way thoroughfare heading west towards Connecticut Avenue, while 17th Street is two-way street with traffic flow moving north and south. However, 17th Street becomes a one-way thoroughfare during the morning crush between the hours of 7:00am – 9:30am.

Access to the Metrorail is within a block from the site. The nearest station is the Farragut North station which is served by the Red line. Three blocks away is the Farragut West Station which is served by the Blue line. A map of the Metrorail and MetroBus system can found on Washington Metropolitan Area Transit Authority website www.wmata.com.

Existing Improvements: The site is currently occupied by three office buildings.

Address	Year Built	Square Feet	% Leased
1730 M Street, NW	1964	190,759	92%
1726 M Street, NW	1964	83,574	95%
1150 17th Street, NW	1970	230,089	88%
		504,422	91%

Frontage: The site is a rectangle in shape with dimensions of approximately (432’ x 133’). The longer side (432’) of the rectangle fronts on M street and the public alley, which is eighteen and a half feet wide, on the south side. The shorter side (133’) fronts on 17th on east side and the adjacent building, 1155 Connecticut Avenue, on the west side. The redeveloped building will have on all four sides windows.

Building Description

The redeveloped building will be a 12-story structure with the ground floor having two retail bays. Floors 2-12 will be designed for commercial office space. The building will extend four levels below grade, allowing for one concourse which could be used for back office or storage and three levels of underground parking.

Amenities will include a roof top terrace, concierge service, 24-hour lobby host, state-of-art fitness facility, on-site management and private balconies.

Size:	Gross Building Area: 634,905 square feet	
	Floors 3-12	48,859 square feet
	Second Floor	40,000 square feet
	Ground Floor	57,456 square feet
	Below Grade Office	48,859 square feet (Not included in FAR calculation)
	Total	634,905 square feet

Address: 1700 M Street, NW

Floors: 12 Stories

Lobby: Entrance to the lobby will be in the center of building on M Street and will feature polished marble, floor to ceiling glass and two frosted glass light walls.

Floor Plates: Most of the buildings in the immediate area have floors plates from 15,000 – 35,000 square feet. The building will have 48,800 square foot floor plates with a very efficient core. The larger the floor plate the more efficient it is for larger tenants and more importantly it is very appealing to law firms.

Column Spacing: Column free perimeter

Slab-to-Slab Heights: 10' 8" floors 2 through 11, the 12th Floor will have 12'4" and 11' 0" on the ground floor. The 10' 8" would yield 8' 4" to 8' 6" finished ceiling height.

Structure: Steel Frame and reinforced concrete.

Façade: The buildings curtain wall will be glass.

Elevators: 6 passenger elevators and 1 freight elevator connecting the office levels; 2 shuttle elevators to the garage.

HVAC: Variable Air Volume (VAV) System

Security: State-of-the-art system by Kastle Systems. The elevators that access the office floors will be controlled by a key fob. The elevators that access the garage will not be controlled by the security system but will monitored by a 24-hour lobby attendant. The lobby attendant will control access to lobby as well as monitor closed circuit video surveillance of the building's common areas.

Parking: Zoning requires 1 space per 1,800 square feet, with a minimum of 285 square feet of garage area per parking space. The building will be designed so that the parking ratio will exceed the minimum requirement for several reasons. First, the building will be marketing to high end users that usually require high parking ratios. In addition, given its location proximate to popular shopping and restaurants in the area, additional parking would help to accommodate likely above average parking demand.

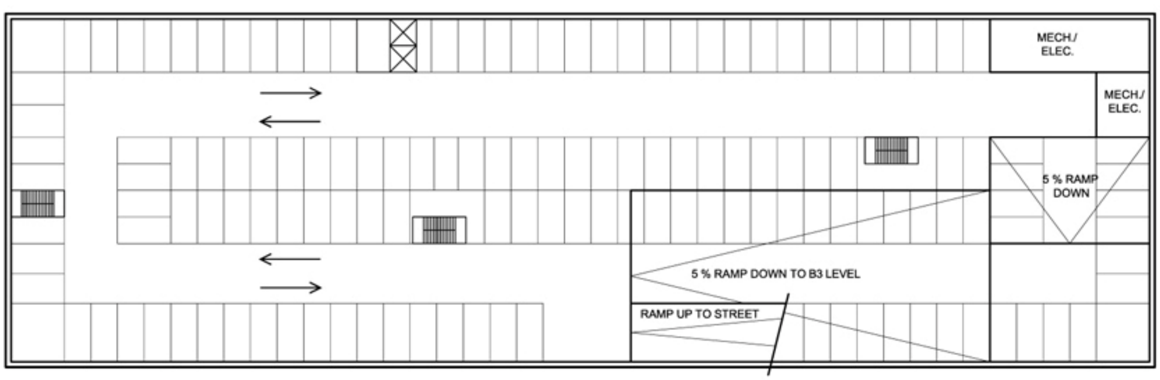
The three levels of underground parking will accommodate 414 spaces, which equals 1.4 per 1,000 square feet of rentable area with 375 square feet per spot. The chart on the following page summarizes the parking space calculation. The costs are provided in this section for reference; however they are also included in the construction cost schedule.

Schedule of Base Building / Below Grade Costs

	Site		57,456	Sq. Ft.
	Building NRA		586,046	Sq. Ft.
	Required Parking	1 per 1,800 Sq. Ft.	326	Spaces
	Area per Space	375 Sq. Ft. / Space	122,093	Sq. Ft.
	Required Structure/Underground		122,093	Sq. Ft.
	Gross Building Area Per Floor	94% of 55,011	51,710	Sq. Ft.
	Required Floors of Parking		3	Floors
A	Actual Structure / Underground Parking		155,130	Sq. Ft.
	Parking Cost	$100.00 per Sq. Ft.	$15,513,000	
	Other Below Grade Costs			
	Concourse Level	$100.00 for 48,859 Sq. Ft.	$4,885,900	

Layout of the garage floor plate is provided below.

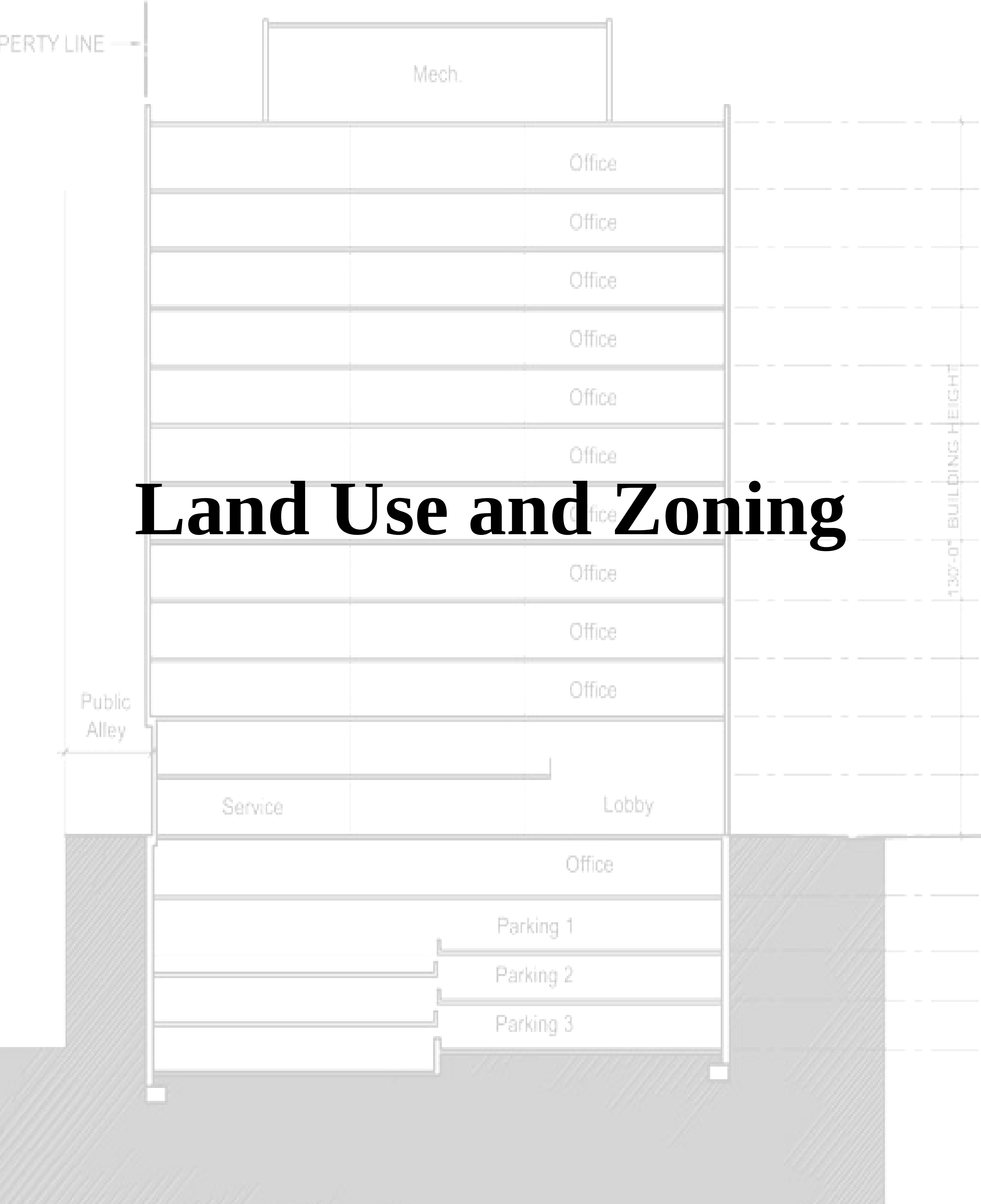
M Street



17th Street

Public Alley

Land Use and Zoning



ZONING REGULATIONS

The site is in the Major Business and Employment Center (C-4) zone district.

Commercial District C-4

According to Chapter 7 of the District of Columbia Municipal Regulations, permitted uses as a matter of right in the C-4 district include the proposed use – office with retail. Other zoning restrictions that control the building envelope include:

- **Height:** As for the maximum height in the C-4 District, the limit is 110 feet. However, a building may be erected to a height not exceeding 130 feet provided that the building or other structure shall face or abut a street not less than 100 feet wide between building lines. The street right-of-way with a frontage on M street is 90 feet wide but the frontage on 17th Street is 110 feet wide.

- **Setback:** Rear yards are required to be 2.5 inches per foot of height, not less than 12 feet. There is no requirement for side yards in the C-4 district. Assuming a building height of 130 feet, there will need to be a setback of 32.5 feet. The Property's address will be 1700 M Street but the property will be fronting on 17th Street, so a public alley is planned at the west side of the building, which can accommodate this setback. The newly created alley will allow better access to the parking in the rear of the building and allow the building to have four sides with windows. The alley will also allow a greater amount of natural light around the property.

- **FAR**: The standard maximum allowed is 8.5, however a structure that is erected to a height in excess of 130 ft may have a floor area ratio of 10.0. Since the structure is fronting the 17th Street and is 110 wide, the FAR of 10 is allowable.

The project will be constructed to the maximum FAR allowed under the regulations. Total FAR square footage will be 574,560 (see Site FAR chart below). As with all of Washington, DC, the site is limited to a height of 130 feet by the Building Height Act of 1910.

Site FAR (assumes single lot of record)

1730 M Street matter-of-right FAR	239,400
1726 M Street matter-of-right FAR	106,400
1150 17th Street matter-of-right FAR	228,760
Total matter-of-right FAR	574,560

Single Lot of Record

The ownership will combine the three properties into a single lot of record to take advantage of the 17th Street frontage increasing the allowable FAR. This will increase the matter-of-right density from an 8.5 to a 10 FAR without requiring approval from the City Council, Zoning Commission, or Major's Agent.

Alternative Options for Increased Density

Some other options were explored such as: mining density from adjacent properties through single lot of record; closing the public alley; and planned unit development.

The property could be combined with an adjacent property by adding it to the single lot of record. Under this approach, the unused gross floor area from the added property could be transferred to the property as added density. The property would allocate its density to the project through a recorded covenant.

The most likely candidate would be a row of historic rowhouses, the Demonet Building at 1756 Connecticut Avenue. The buildings have a substantial amount of unused FAR but the downside is that the property would then be deemed an historic building. This would involve an historic landmark process that involves the discretionary approval of the Mayor's Agent.

Closing of the public alley would increase the buildings footprint and increase the total gross square footage of the building. The downside is the alley is currently being used by all of the surrounding buildings and therefore would need to remain open. Additionally, an alley closing is not a matter-of-right and requires the discretionary approval of the City Council.

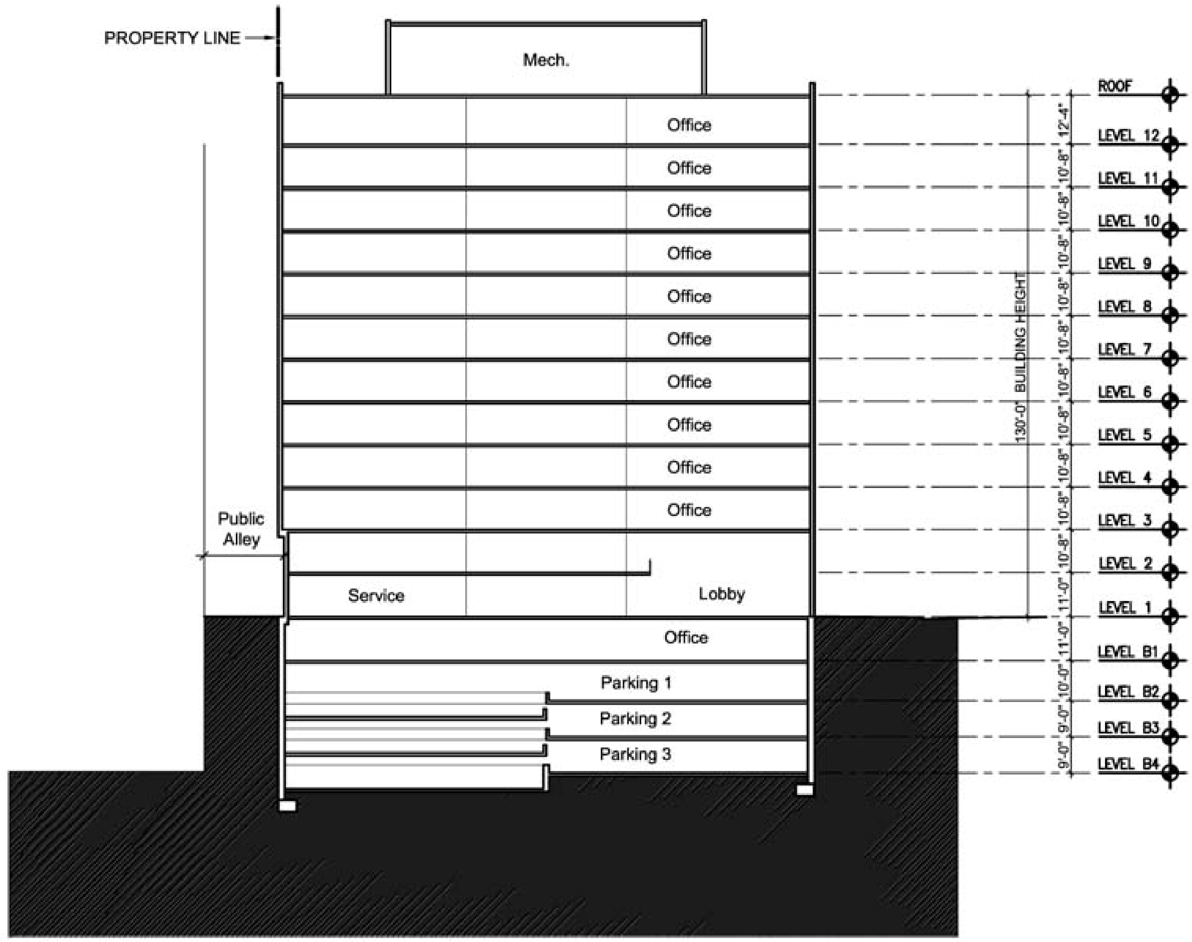
Lastly, a Planned Unit Development “PUD” was explored. The site meets the minimum requirement of 15,000 square feet of land area. The PUD would increase the FAR from 10 to 10.5 but would require the discretionary approval of the Zoning Commission and would require substantial amenities and affordable housing requirements.

Parking

For C-4 districts, a building or structure built on a lot having an area of more than 10,000 square feet, the parking requirement is one space for each 1,800 square feet of gross floor area above 2,000 square feet. A minimum of 285 square feet of parking area shall be provided for each parking space. However, based on competitive buildings in the market, and given that the building will need to appeal to high-end users, more parking will be included. Specifically, the parking will be designed for 1.4 spaces per 1,000 square feet, while still allowing 375 square feet per space of garage area. Since the parking garage will need to extend three levels below grade, adding this additional parking capacity will not increase construction costs significantly.

Building Height

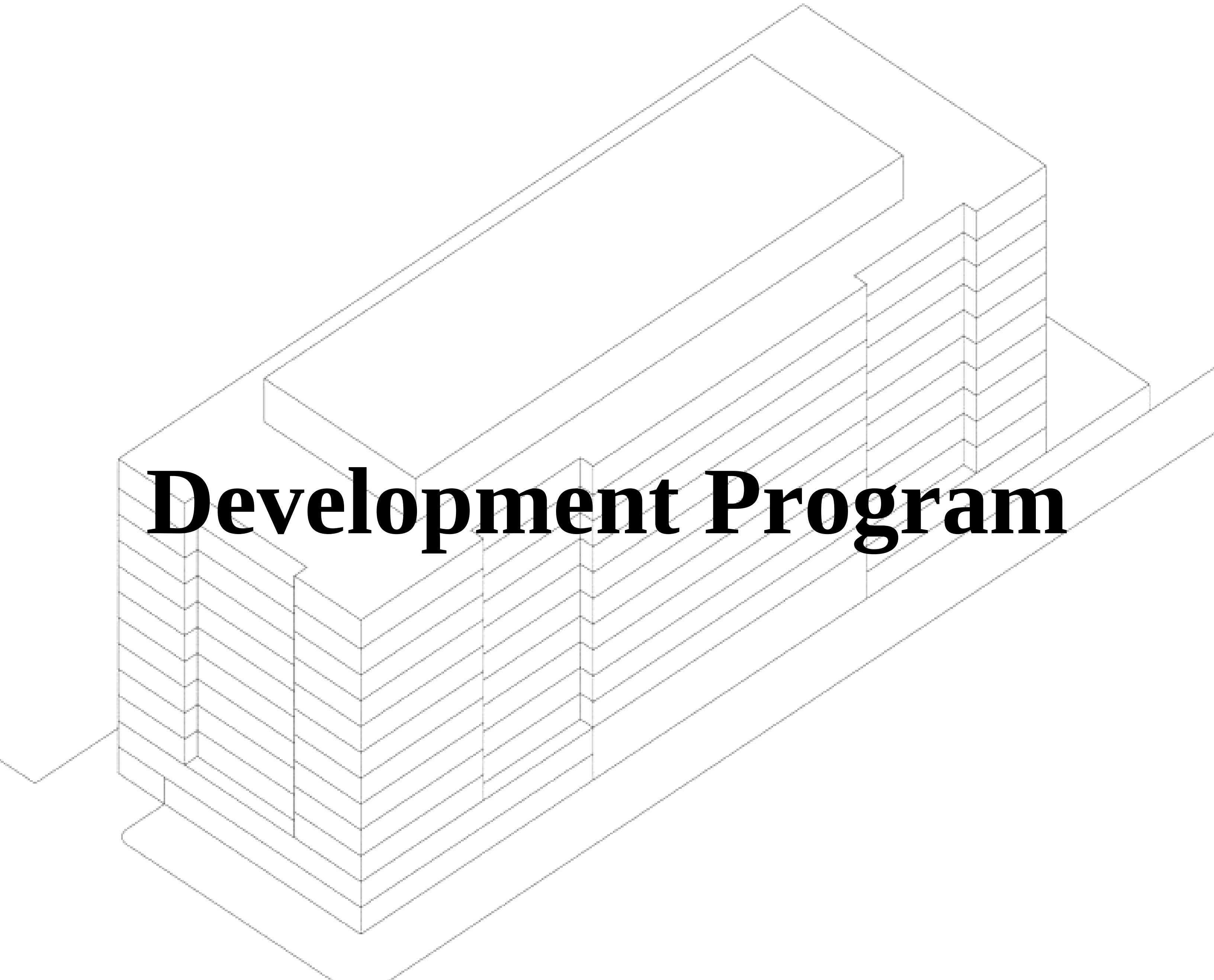
A drawing of the building section is on the following page. It illustrates the overall height and size of the building, based on FAR and finished slab-to-slab heights.



Note:	Floors 3-12	48,859 square feet
	Second Floor	40,000 square feet
	Ground Floor	57,456 square feet
	Below Grade Office	48,859 square feet (Not included in FAR calculation)
	Total	634,905 square feet

Typical Floor-to-floor of 10'-8" would yield a 8'4" to 8'6" finished ceiling height, approximately 12'4" on the 12th floor and approximately 11'0" floor-to-floor on the Ground Floor. The difference between the Floor-to-floor height and the finished height is 18", which is needed to accommodate the mechanical equipment needed to condition the office space.

Development Program



Development Issues

The Property will be a Class A office building of institutional quality and presence. Given its location, the building should be of sufficient class and quality to attract the most active leasing class in this submarket – major law firms, and high-end lobbying/government relations firms.

- The site is currently home to three office buildings that are fully tenanted and have long term leases in place. In order to redevelop the site the buildings will need to be de-tenanted and demolished before the redevelopment can start. The ownership has developed a strategy for de-tenanting and will execute on that strategy. More on De-tenanting in the next Section (6).

- Pre-leasing is highly recommended, both to achieve the most favorable cost of capital (debt and equity), and the buildings are producing substantial cash flow currently. A 50% pre-leasing of the office component will be required prior to commencement of the development project and prior to the exercising the demolition clause provision. Likely candidates for this pre-leasing is a "lead" tenant that has the financial capacity to commit to at least 285,000 square feet. With major tenants in the market negotiating leases 3-5 years in advance, this provides excellent opportunity to secure pre-leasing for the property. In this market, tenants include major law firms, financial institutions, or a major corporation or association. Given the recent activity by major law firms to relocate and customize their spaces, it is likely that a law firm will be the lead tenant for this property. Due to the limited amount of contiguous space available over 200,000 square feet, law firms are forced to make leasing decisions 3-6 years in advance. This is advantageous to the office developer as it allows for pre-leasing to occur prior to major debt and equity commitments. In this case, it allows the owner to de-tenant the building and prepare it for the redevelopment process.

- There are environmental issues with demolishing existing buildings. Asbestos and other harmful by-products of buildings that were built before 1978. The buildings will have the environmentally harmful material removed before the buildings are razed and the site will be remediated.

- One of the buildings, 1730 M Street, has a ground lease on a portion of the site, 7,980 square feet of land. The ownership will buy-out the ground lease interest and gain total control of the site. The ground lease expires 2061 and the ground lease payments reset every ten years. The payment is based on six percent (6%) of the appraised value of the land and in no event less than the rent preceding the period. The current payments are set through 2011. The Ownership will approach the ground lesser prior to 2011, during negotiating time of the next ten years of payments. If the ground owner is not interested in selling then we will restructure the ground lease in an effort to extend the term and give them some upside potential for their portion of the land.

- One important factor in the project is the timing of critical events in the planning, construction, and delivery schedule. The following schedule is a simplified version of major events that will occur during the project. The greatest degree of risk would be in the pre-development phase (demolition of buildings, initial funding, site plan approval, and permits), and in the leasing of the project. Within the pre-development phase, the risk is the greatest because there needs to be an outlay of capital prior to zoning and site plan approvals. Additionally, the pre-leasing activity would take place simultaneously. The success of the project would depend on the pre-development and ground lease acquisition event happening in near sequential order, as construction could not begin before land was secured and the design/construction documents were completed. In addition, pre-leasing to an anchor tenant is a critical component of the transaction because the construction loan would be contingent upon it.

- From the time the partnership is in place, and capital is committed to the deal, time has a dollar cost associated with it. A delay would increase costs, and reduce returns of the project. Once construction starts, one of the primary risks is escalating construction costs. Generally, an experienced contractor can perform the construction process reliably (even with weather delays), however, construction costs are variable. One way to mitigate this risk would be through a Guaranteed Maximum Price (GMP) contract. This is especially difficult given the time between when the investors will invest in the project and when the project will be redeveloped. The time period is roughly seven to eight years from the publishing of this offering and the first money spent on the redevelopment.

- Another major risk associated with a prolonged delay in construction would be that it could potentially endanger the terms of the pre-lease. As part of the lease negotiations, the Lead Tenant will require certain delivery dates, and will likely have termination provisions if the space is not ready for occupancy on or near the target date. Since the construction loan is tied to the pre-lease, if the there were a default under the pre-lease and the anchor tenant pulled out, the construction lender may require additional equity commitments. Furthermore, as a contingency for funding the construction loan, all necessary zoning approvals, construction contracts, and building permits must be in place. All of these factors combine to make the most critical period in the Project that of Pre-Development and Ground Lease Purchase/Restructure & Financing.

On the Following page please find the development schedule.

Development Schedule

	Start	End	Mos.
Analysis Start Date/Escalation Date	1/1/2011	---	1
Finished De-tenanting Buildings	1/1/2011	1/1/2015	122
Ground Lease Buy-out	1/1/2011	1/31/2012	12
Design	1/1/2013	6/30/2015	30
Zoning	1/1/2014	4/30/2014	4
Permit	3/1/2015	8/31/2015	6
GC Bid & Award	3/1/2014	12/31/2014	10
Demolition & Haz Mat	1/1/2015	8/31/2015	8
Construction	9/1/2015	6/30/2017	22
Pre-leasing	1/1/2013	---	---
Begin Tenant Work	4/1/2017	---	---
Lease-up	7/1/2017	4/30/2018	9
Stabilization	---	5/1/2018	---
Closing Date	1/1/2015	---	---
Construction Loan Closing	9/1/2015	---	---

Project Management Plan

Project Delivery: Between the two traditional methods of project delivery (design-bid-build or negotiated select), design-bid-build is favored due to the phasing sequence of the process. Since it is anticipated that the construction project will be bid to three separate contractors in a competitive process, reliable, prepared construction design is preferred. Under the negotiated select program, both the architect and the contractor would be identified from the beginning of the Project. One other consideration that is important in the selection of the design-bid-build method is the likelihood of pre-leasing by a major anchor tenant prior to Project commencement. In a pre-leasing scenario, the design-bid-build process may allow the anchor tenant to influence or "customize" its space in the design phase of the project. It would be important for the details of this customization to be identified prior to bidding the construction contract.

Cost Control: Cost control is fundamental and starts in the early stages with the construction staff working with the development team in estimating from very preliminary information. This preliminary information is used to project costs for the project in a budget or project budget estimate. Conceptual estimating has been employed by the development team to avoid false starts, costly modifications or change orders, and lost opportunities. The cost control system tracks the latest expenditures and commitments and makes sure that they are timely and accurate to the cost projections.

Development Team

Developer/Owner: 1700 M Street LLC, a limited liability company, will be formed with the sole purpose developing the Property. The capitalization of 1700 M Street will be 64% debt ($267 MM) and 36% equity ($152 MM).

Two separate LLC entities will comprise 1700 M LLC: 1700 Associates (25%), who will act as the developer, and 1700 M Equity LLC (75%), whose sole member will be an institutional equity source. This partnership structure will allow for the institutional equity to provide construction loan guarantees as part of the 1700 M LLC entity.

Architect: Established in 1981, Shalom Baranes Associates is a highly regarded firm in the Washington, DC area. The firm has executed over twenty million square feet and received over one hundred design awards. Several projects design in the Central Business District include 1875 Pennsylvania Avenue, 816 Connecticut, and The American Red Cross Headquarters. With extensive experience in building design within Washington, D.C. this firm would be not only be qualified, but also best suited for this project.

Construction Management: A construction manager (CM) will be retained to provide process management oversight. The CM will also provide necessary coordination among design, bidding and negotiation, and construction. It is anticipated that the CM will be involved as early as the pre-design and test-fit stage. The CM will not have the authority to act as an agent of the ownership, but rather serve in an advisory role.

After the architect has completed the construction drawings, the ownership will bid the project out to three general contractors. The bidding process will allow the ownership to judge the best company to provide construction services. It is important to select a contractor that has a track record in developing Class A office buildings, but also to choose a firm large enough to provide qualified contracting services for both base building and interior construction. Also, larger contracting firms are more likely to have access to a broader base of subcontractors, which may translate into pricing advantages. The project will be bid to three major contractors that have excellent track records in building Class A office buildings in Washington, D.C. –Whiting-Turner Contracting Company, James G. Davis Construction Corporation and Clark Construction

Legal: Arnold & Porter, a prominent law firm based in Washington, D.C. will represent the interests of the ownership entity.

Management & Leasing: Management and leasing services will be contracted to a third party under separate agreements.

Property Management – Jones Lang LaSalle is an experienced property management firm with a number of Class A and Trophy buildings under management in downtown Washington, D.C., including 1401 H Street, 1776 Eye Street, and 1800 M Street. Jones Lang will be retained under annual property management contract. The management fee will be approximately 2.5% of Effective Gross Income.

Leasing - the company to provide leasing services for the building will also be Jones Lang LaSalle with extensive experience in landlord representation. The terms of the contract will represent competitive market pricing, which is assumed to cost the landlord 5% for new lease deals, and 3.0% on any lease renewals. There will be customary splits for landlord and tenant representatives.

Jones Lang LaSalle has their regional headquarters in Washington, DC and a suburban office in McLean, VA. Jones Lang LaSalle provides comprehensive and integrated real estate and investment management solutions. Jones Lang LaSalle serves owners, occupiers and investors of more than 18 million square feet of the Washington, DC area's most prestigious commercial real estate.

Their core service areas are: leasing, management, project and development services, capital markets, strategic consulting and construction. In addition the Washington, DC regional office is headquarters for the firm's Law Firm Services, Government Investor Services and Public Institutions practice groups.

- Property and facility management: 18 million s.f.
- Agency leasing portfolio: 14 million s.f.
- Transaction volume: 9 million s.f.
- Total Employees: 560

Design Considerations

Leadership in Energy & Environmental Design (LEED)

This initiative was developed and is administered by the U.S. Green Building Council "USGBC", a national non-profit organization. USGBC is comprised of 15,000 members from the building industry with representation from manufacturers of building products, financial and insurance companies, architectural/engineering/professional firms, contractors and builders, universities, as well as local and federal governmental agencies.

The USGBC has established a point system whereby projects are awarded credits based on criteria set forth in the program. It is important to note that the LEED is a third party certification program. LEED lays out guidelines that give owners and developers tools that will make impact on the building's performance. This means that the bulk of additional development costs will be related to the design of the project, so that integrated systems can work more efficiently together. It is important in selecting an architectural firm that they have experience in LEED certifications. In addition, since conformance to LEED standards depend on the inter-relation of building systems, it is critical that the decision regarding LEED rating be decided early in the process because this may influence the selection of which architectural firm to employ.

There are numerous reasons to consider a "green design", but the primary reason for this project is that there is quantifiable data indicating that the cost savings related to a green building design are worth the additional cost. The financial benefits of green buildings include lower energy consumption, more efficient waste disposal, and savings from increased productivity from a healthier environment.

LEED ratings for new construction is the following:

- Certified: 26-32 points
- Silver: 33-38 points
- Gold: 39-51 points
- **Platinum: 52-69 points**

The project will look to achieve a LEED Platinum Certification.

Financial Analysis

Existing Property Valuations

The three existing buildings total 504,422 square feet and are 91% leased, with 129 tenants. The buildings were valued individually and then combined to aggregate their overall value. The overall value will be used as the basis for the project offset by the interim income the properties will produce before they are razed.

A brief description of the properties is below.

Address:	1150 17th Street, NW
Year Built:	1970 & Lobby renovations 2002.
Total Rentable Square Feet:	230,089
Typical Floor Size:	18,000 – 19,000 square feet
Total Office Square Feet:	215,405
Total Retail Square Feet:	8,855
Total Number of Parking Spaces/SF/Ratio:	240 (86,041 sq. ft.); 1 per 1,000
Total Number of Tenants:	58
Building Occupancy Percentage as of 9/08:	88.4%

Major Tenants	(Existing) SqFt	% of Total	Existing (Fully escl.) Rent PSF	Market Rent PSF	Expiration w/o option	Expiration w/option
American Enterprise Institute	55,693	24.2%	$49.22	$46.00	Feb-12	Jan-17
Academy Health	16,169	7.0%	$41.51	$43.00	Dec-17	Dec-17
Littler Mendelson, PC	15,792	6.9%	$41.93	$45.00	Jul-15	Jun-20
Weekly Standard	11,626	5.1%	$41.50	$43.00	Feb-15	Jan-20
Esocoff & Assoc.	10,204	4.4%	$40.22	$44.00	Mar-16	Feb-21
	109,484	47.6%	$45.37			

		/PSF
Value of Building as of September 2008:	$86,275,000	$374
Direct Capitalization Rate:	6.81%	
Unleveraged IRR on 10 years:	8.29% (w/ closing costs of 1.5%)	

Terminal Capitalization Rate: 7.00% (w/closing costs of 1.5%)

Levered (assumptions to follow) IRR on 10 years: 9.29%

Percentage of Sale from Net Cash Flow: 39%

Percentage of Sale from Residual Value: 61%

Address: 1730 M Street, NW

Year Built: 1964 & Lobby renovations 2004.

Total Rentable Square Feet: 190,759

Typical Floor Size: 18,000 – 19,000 square feet

Total Office Square Feet: 190,759

Total Retail Square Feet: 0

Total Number of Parking Spaces/SF/Ratio: 225 (79,834 sq. ft.); 1.2 per 1,000

Total Number of Tenants: 44

Building Occupancy Percentage as of 9/08: 91.9%

Major Tenants

	(Existing) SqFt	% of Total	Existing (Fully escl.) Rent PSF	Market Rent PSF	Expiration w/o option	Expiration w/option
Amideast	17,672	9.2%	$38.25	$43.00	Jun-15	Jun-15
Share our Strength	15,124	7.9%	$40.43	$42.00	Apr-14	Apr-19
Angel Christian TV	12,986	6.8%	$39.54	$40.00	Dec-10	Dec-10
American Lawyer Media	12,497	6.5%	$45.27	$42.00	Aug-12	Aug-17
League of Women Voters	10,105	5.3%	$40.72	$43.00	Sep-14	Sep-19
	68,384	35.7%	$40.63			

		/PSF
Value of Building as of September 2008:	$64,000,000	$336

Direct Capitalization Rate: 5.87%

Unleveraged IRR on 10 years: 6.68% (w/ closing costs of 1.5%)

Terminal Capitalization Rate: 8.50% (w/ closing costs of 1.5%)

Levered (assumptions to follow) IRR on 10 years: 6.2%

Percentage of Sale from Net Cash Flow: 36.9

Percentage of Sale from Residual Value: 63.1

Address:	1726 M Street, NW
Year Built:	1964 & minor renovations
Total Rentable Square Feet:	83,574
Typical Floor Size:	7,000 – 8,000 square feet
Total Office Square Feet:	79,737
Total Retail Square Feet:	3,449
Total Number of Parking Spaces/SF/Ratio:	82 (3,500 sq. ft.); 1 per 1,000
Total Number of Tenants:	27
Building Occupancy Percentage as of 9/08:	95.3%

Major Tenants

	(Existing) SqFt	% of Total	Existing (Fully escl.) Rent PSF	Market Rent PSF	Expiration w/o option	Expiration w/option
Nelnet	8,926	10.7%	$41.47	$40.00	4/30/14	4/30/14
Aptima	8,836	10.6%	$43.12	$40.00	9/30/11	9/30/15
O'Brien McConnell Pearson	6,364	7.6%	$36.37	$38.00	7/31/09	7/31/12
PFLAG	6,124	7.3%	$37.07	$39.00	12/31/09	12/31/14
Lake, Snell, Perry & As	5,573	6.7%	$37.50	$39.00	5/31/09	5/31/09
	35,823	42.9%	$39.60	$39.32		

		/PSF
Value of Building as of September 2008:	$31,200,000	$373
Direct Capitalization Rate:	5.87%	
Unleveraged IRR on 10 years:	8.32% (w/ closing costs of 1.5%)	
Terminal Capitalization Rate:	7.0% (w/ closing costs of 1.5%)	
Levered (assumptions to follow) IRR on 10 years:	9.06%	
Percentage of Sale from Net Cash Flow:	39.6	
Percentage of Sale from Residual Value:	60.4	

The loan assumptions are the following:

Loan-to-value:	65%
Value was based on in place Net Operating Income caped:	7.25%
Interest Rate was a spread over the ten year treasury of:	4.04%
Spread was calculated as:	3.25%
Total Interest Rate:	7.29%
Amortization was assumed to be:	25 years
The Debt Coverage Ratio will not be less than:	1.20

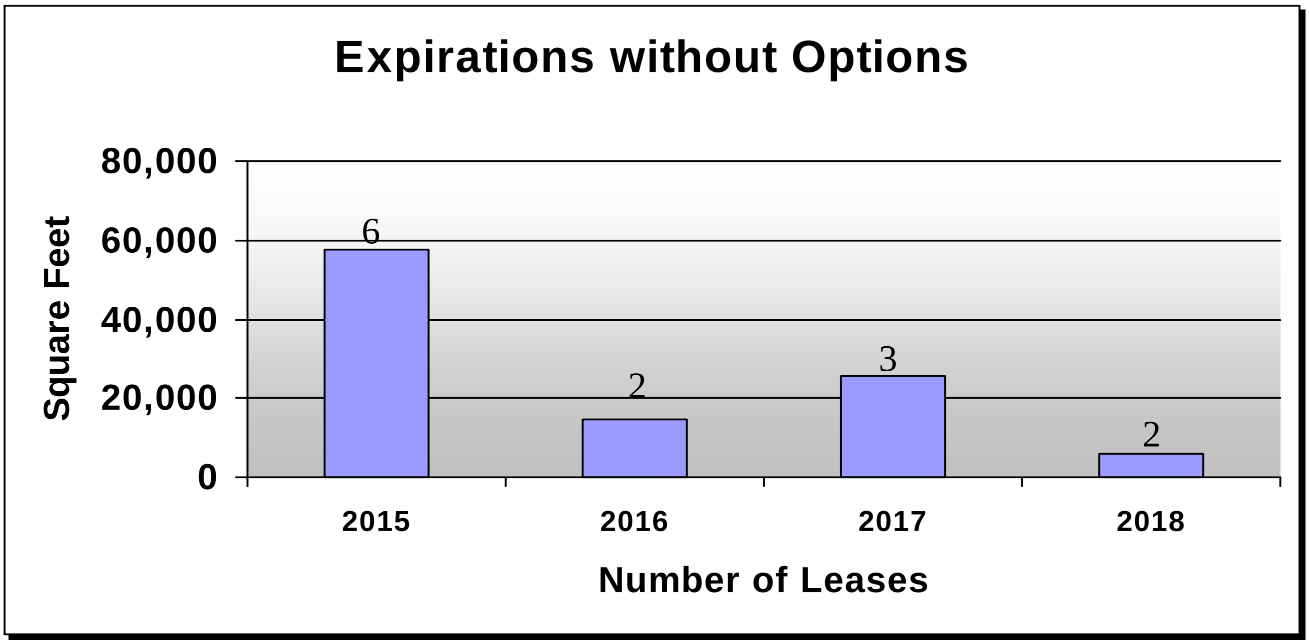
De-tenanting of existing buildings: 1730 M, 1726 M and 1150 17th Street,NW

The redevelopment project is currently three office buildings 91% leased to a combined total of a 129 tenants. The ownership in an effort to prepare the buildings for redevelopment has placed a demolition clause in some of the tenant's leases. The demolition clause gives the tenant a years notice before the building will be demolished and in some cases the tenants receive monetary compensation for early termination. Not every tenant has the clause and the ownership has not actively approached tenants to assure that the ownership has leverage. The demolition clauses have only been placed in tenant's leases that are actively negotiating with the ownership or have given written notice for an extension, expansion, right of first refusal, right of first offer and renewals.

In some rare cases the demolition clause has been added to a lease if the tenant is in default of payment or in default of a lease provision.

A lease analysis was performed for each building, considering current expiration dates as well as renewal options. These three separate analyses were then combined to determine an optimal redevelopment date. A result of the findings found that late 2015 or later are the most realistic dates. There are however some tenants who are problematic because they extend past the critical date of 2015. In order to evaluate the information and develop a strategy to deal with the problematic tenants we broke the tenants up into two groups. The first group are tenants that have a current expiration date that is past the critical time period of 2015. The second group are tenants who have renewal options that extend them passed the critical time period of 2015.

The first group of tenants was evaluated in the below graph. The graph shows the tenants with current expirations in 2015 and beyond for all three buildings.



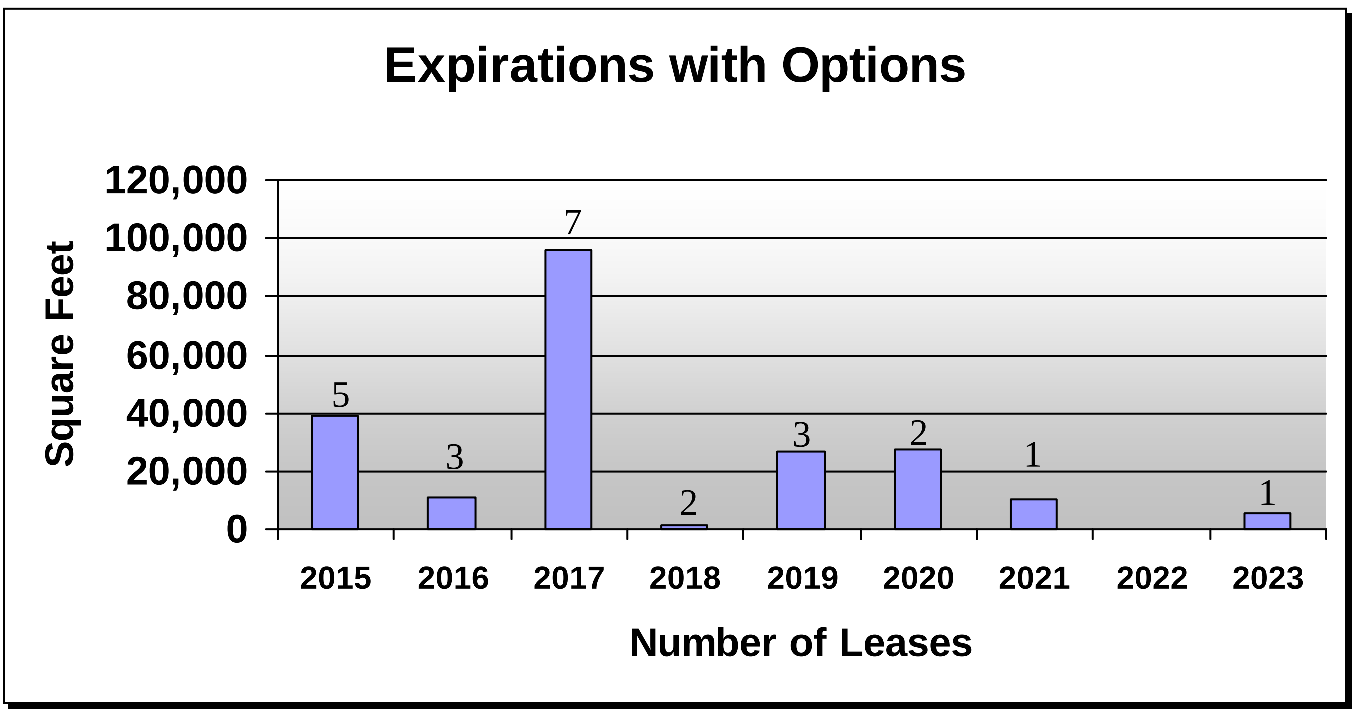
There are thirteen tenants who have an expiration that expires in 2015 and beyond. Two of the thirteen do not have a demolition clause in their lease. Below is a chart identifying the problematic tenants.

Problematic Tenants without a Demolition Clause and Current Expirations from 2015 - Beyond			
Date of Exp.	**Building**	**Tenant**	**Square Feet**
2015	1726 M Street, NW	Great Lengths	2,186
2016	1150 17th Street, NW	Esocoff & Associates	10,204
			12,390

Great Lengths is a hair salon. Their lease expires May 2015, our strategy is to let the lease expire and not approach them for a buy-out or restructuring of their lease.

Escocoff & Associates is a 30-person architecture firm that was founded in 1995. They have been in 1150 17th Street since early 2000. They renewed in December of 2005 for ten years. They also have a five year renewal at fair market value and no demolition clause. Our strategy would be to wait until they have to give notice on their renewal option, which is 12 months before December of 2014. At which time we would restructure their lease, give them a discounted market rental rate and add the demolition clause.

The second group of tenants was analyzed and the chart below shows all of the tenants that have renewal options that extend beyond the critical redevelopment date of 2015.



There are twenty four tenants with lease renewals that expire on 2015 and beyond. Half of the tenants have demolition clauses in their leases.

On the following page is a chart identifying the problematic tenants.

Problematic Tenants without a Demolition Clause and Lease Renewals that extend past 2015			
Date of Exp.	**Building**	**Tenant**	**Square Feet**
2015	1150 17th Street, NW	Sports Goods Manufacturers Assoc.	7,168
2015	1726 M Street, NW	Aptima	8,836
2016	1726 M Street, NW	Accel Management	2,291
2016	1726 M Street, NW	Allied Advertising	5,062
2017	1726 M Street, NW	The Road Information Program	1,799
2017	1150 17th Street, NW	American Enterprise Institute	55,693
2017	1730 M Street, NW	American Lawyer Media	12,497
2019	1726 M Street, NW	Mudd House	1,263
2019	1730 M Street, NW	League of Women Voters	10,105
2019	1730 M Street, NW	Share our Strength	15,124
2020	1150 17th Street, NW	Weekly Standard	11,626
2020	1150 17th Street, NW	Littler Mendelson, PC	15,792
			147,256

Sports Goods Manufacturers Association is a trade association for the sports and fitness industry. The association was formed in 1906 in New York and is operated from the contributions of its membership. They are a cost conscience organization that might be agreeable to adding a demolition clause for a rent reduction of one year.

Aptima is a software research and development company that was created in 1995. Their current lease expires September 2011 and they are required to give 12 months notice if they intend on renewing, September 2010. The strategy is to wait until September 2010 and if they decide to exercise their option we will try to negotiate the demolition clause for a discount on market rent.

Accel Management is a public relations company that does business as Williams S Bergman and Associates. The company has been around since 1968 and it employs 525. Their current lease expires November 2011 and they are required to give 12 months notice if they intend on renewing, November 2010. The strategy is to wait until November 2010 and if they decide to exercise their option we will try to negotiate the demolition clause for a discount on market rent.

Allied Advertising is a public relations and advertising firm specializing in local market advertising, publicity and promotions for the entertainment industry. They were formed in 1968 and have twenty-four locations in the United States. Their current lease expires December 2011 and they are required to give 12 months notice if they intend on renewing, December 2010. The strategy is to wait until December 2010 and if they decide to exercise their option we will try to negotiate the demolition clause for a discount on market rent.

The Road Information Program (TRIP) is a nonprofit organization founded in 1971. TRIP promotes transportation policies that relieve traffic congestion, improve road and bridge conditions, improve air quality, make highway travel safer and enhance economic productivity. They are a cost conscience organization that has to be in the Washington, DC area. Their current lease expires July 2012 and they are required to give 12 months notice if they intend on renewing, July 2011. The strategy is to wait until July 2011 and if they decide to exercise their option we will try to negotiate the demolition clause for a discount on market rent.

American Enterprise Institute for Public Policy Research is a not-for-profit institution dedicated to research and education on issues of government, politics, economics, and social welfare. Founded in 1943 and leased space at 1150 17th Street since the early 1970's. They are a cost conscience organization that has to be in the Washington, DC area. Their current lease expires February 2012 and they are required to give 12 months

notice if they intend on renewing, February 2011. The strategy is to wait until February 2011 and if they decide to exercise their option we will try to negotiate the demolition clause for a discount on market rent.

American Lawyer Media is the publisher of The American Lawyer, a monthly magazine for lawyers that covers the business from the United States to all over the world. They are a cost conscience and the publishing business has been contracting over the years. Their current lease expires August 2012 and they are required to give 12 months notice if they intend on renewing, August 2011. The strategy is to wait until August 2011 and if they decide to exercise their option we will try to negotiate the demolition clause for a discount on market rent.

Mudd House is a coffee shop owned by two individuals. Their current lease expires October 2012 and they are required to give 12 months notice if they intend on renewing, October 2011. The strategy is to wait until October 2011 and if they decide to exercise their option we will try to negotiate the demolition clause for a discount on market rent.

League of Women Voters is a nonpartisan political organization, founded in 1920. This is their headquarters location and they are very cost conscience organization. Their current lease expires September 2014 and they are required to give 12 months notice if they intend on renewing, September 2013. The strategy is to wait until September 2013 and if they decide to exercise their option we will try to negotiate the demolition clause for a discount on market rent.

Share our Strength is a national organization that creates community groups, activists and food programs to help children at risk of hunger. They are cost conscience. Their current lease expires April 2014 and they are required to give 12 months notice if they intend on renewing, April 2013. The strategy is to wait until April 2013 and if they decide to exercise their option we will try to negotiate the demolition clause for a discount on market rent.

The Weekly Standard is a American opinion magazine. It was created in 1995 and is owned by News Corporation. Their current lease expires February 2015 and they are required to give 12 months notice if they intend on renewing, February 2014. The strategy is to wait until February 2014 and if they decide to exercise their option we will try to negotiate the demolition clause for a discount on market rent.

Littler Mendelson is labor and employment law firm. The firm was founded in 1942 and has over 750 attorneys at 45 locations. Their current lease expires July 2015 and they are required to give 12 months notice if they intend on renewing, July 2014. The strategy is to wait until July 2014 and if they decide to exercise their option we will try to negotiate the demolition clause for a discount on market rent.

The De-tenanting process will be a well orchestrated process, which will involve the ownerships legal counsel, in-house leasing, property management and finance department.

The property management interacts with the tenants on a daily basis and will therefore be an integral part in keeping the tenants in the building as long as possible. Even though we have added Demolition Clauses in tenant's leases we will need the flexibility to move the critical development further out if market conditions take a turn for the worst or the financial markets create a difficult lending environment.

The In-house leasing agent will be important to the process because they are executing the de-tenanting strategy as well keeping the building leased through the period before the demolition.

The legal department and the finance department will work jointly to help facilitate the process in an orderly and thoughtful fashion.

Land Cost and Interim Income

The aggregate value for all three buildings is below:

Aggregate square feet:	504,422
Aggregate Value as of Sept. 2008:	$181,475,000/ $360 per SF

Interim cash flow from all three buildings from 2009 to 2015: $52,526,548

Total Land Basis for 2015 based on existing building is:

Existing Buildings Aggregate Value:	$181,475,000
Less: Interim Income:	$52,526,548
Total Land Basis:	$128,948,452
Total Land Basis/ PSF (existing)	$256

Development Profile

The development is slated to begin January 2015. The three existing buildings will be demolished and the development will begin construction September 2015.

Sources and Uses of Funds

Below is the schedule of sources and uses of funds.

Sources	Amount	PSF GFA	Uses	Amount	PSF GFA
Construction Loan	267,058,641	420.63	Land	155,498,452	244.92
Equity (Developer)	38,141,742	60.07	Hard Costs	117,254,755	184.68
Equity (Partner)	114,425,227	180.22	Soft Costs	24,323,333	38.31
			Tenant Improvements	45,667,517	71.93
			Leasing Commissions	32,748,205	51.58
			Construction Interest	27,533,531	43.37
			Hard Cost Contingency	4,553,583	7.17
			Soft Cost Contingency	6,765,591	10.66
			Financing Costs	5,280,644	8.32
Total Sources	$419,625,611	$660.93	Total Uses	$419,625,611	$660.93

The development costs are outlined on the following page.

Schedule of Construction Costs

PROJECT BUDGET

			Total Cost	Cost Per RSF	Cost Per GFA	% of Total
Land Costs						
	Land Cost		$ 181,475,000	$ 296.34	$ 285.83	43.25%
	Ground Lease Buy-out/Additional Land Costs		$ 26,550,000	$ 43.36	$ 41.82	6.33%
	Existing Buildings Interim Income		$ (52,526,548)	$ (85.77)	$ (82.73)	-12.52%
	Subtotal Land Costs		$ 155,498,452	$ 253.92	$ 244.92	37.06%
				$ -	$ -	
Hard Costs				$ -	$ -	
	Base Building		$ 121,808,338	$ 198.91	$ 191.85	29.03%
	Office Tenant Improvements		$ 44,175,299	$ 72.14	$ 69.58	10.53%
	Retail Tenant Improvements		$ 1,492,218	$ 2.44	$ 2.35	0.36%
				$ -		
	Subtotal Hard Costs		$ 167,475,855	$ 273.48	$ 263.78	39.91%
				$ -	$ -	
Soft Costs				$ -	$ -	
	Design and Engineering		$ 6,330,641	$ 10.34	$ 9.97	1.51%
	Fees and Permits		$ 1,024,186	$ 1.67	$ 1.61	0.24%
	Financing Fees - Construction Loan		$ 5,280,644	$ 8.62	$ 8.32	1.26%
	Insurance		$ 1,121,056	$ 1.83	$ 1.77	0.27%
	Marketing		$ 400,000	$ 0.65	$ 0.63	0.10%
	Professional Fees		$ 1,440,476	$ 2.35	$ 2.27	0.34%
	Real Estate Taxes		$ 5,520,573	$ 9.01	$ 8.70	1.32%
	Reimbursable Costs		$ 64,000	$ 0.10	$ 0.10	0.02%
	Start Up Costs		$ 730,558	$ 1.19	$ 1.15	0.17%
	Testing and Inspections		$ 150,000	$ 0.24	$ 0.24	0.04%
	Development Fees/Overhead		$ 10,490,640	$ 17.13	$ 16.52	2.50%
	Interest - Construction Loan		$ 27,533,531	$ 44.96	$ 43.37	6.56%
	Leasing Commissions		$ 32,748,205	$ 53.48	$ 51.58	7.80%
	Soft Cost Contingency	7.00%	$ 6,765,591	$ 11.05	$ 10.66	1.61%
	Interim Income		$ (2,948,798)	$ (4.82)	$ (4.64)	-0.70%
					$ -	
	Subtotal Soft Costs		$ 96,651,304	$ 157.83	$ 152.23	23.03%
	Total Project Cost		**$ 419,625,611**	$ 685.24	$ 660.93	**100.00%**

Construction Loan

Loan-to-Cost	64%
Total Loan Amount:	$262,702,683
Interest Rate based on LIBOR:	3.75%
(based on 10 year average from 1998 – 2008)	
Spread over LIBOR:	3.50%
Total Interest Rate	7.25%

1700 M Street, NW   Redevelopment

Term:	3.25 years
Amortization:	Interest Only
Annual Debt Service:	$3,404,262 Month (1-12)
Annual Debt Service:	$11,368,766 Month (13-24)
Annual Debt Service:	$12,739,032 Month (25-33)
Construction Loan Fee:	$5,199,405
<u>Breakdown of Fees</u>	
Recordation (1.45%)	$3,809,189
Lender Fee (0.35%)	$919,459
Title (0.065%)	$170,757
Construction Admin	$150,000
Legal Fees	$150,000

1700 M Street, NW   Redevelopment

Construction Draw Schedule – Months 1-12

	Total $	1 9/1/15	2 10/1/15	3 11/1/15	4 12/1/15	5 1/1/16	6 2/1/16	7 3/1/16	8 4/1/16	9 5/1/16	10 6/1/16	11 7/1/16	12 8/1/16
Base Building	**$ 63,684,469**	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039
Office Tenant Improvements	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Retail Tenant Improvements	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Subtotal Hard Costs	**$ 63,684,469**	**$ 5,307,039**	**$ 5,307,039**	**$ 5,307,039**	**$ 5,307,039**	**$ 5,307,039**	**$ 5,307,039**	**$ 5,307,039**	**$ 5,307,039**	**$ 5,307,039**	**$ 5,307,039**	**$ 5,307,039**	**$ 5,307,039**
Design and Engineering	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Fees and Permits	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Financing Fees - Construction Loan	**$ 5,280,644**	$ 5,280,644	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Insurance	**$ 611,485**	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ 50,957
Marketing	**$ 75,000**	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250
Professional Fees	**$ 270,089**	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507
Real Estate Taxes	**$ 2,865,652**	$ 1,564,221	$ -	$ -	$ -	$ -	$ -	$ 1,301,432	$ -	$ -	$ -	$ -	$ -
Reimbursable Costs	**$ 12,000**	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
Start Up Costs	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Testing and Inspections	**$ 81,818**	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ 6,818
Development Fees/Overhead	**$ 2,331,253**	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ 194,271
Interest - Construction Loan	**$ 11,063,991**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,063,991	$ -
Leasing Commissions	**$ 3,411,793**	$ 33	$ 109,548	$ 144,185	$ 179,033	$ 216,377	$ 253,948	$ 299,658	$ 337,735	$ 376,044	$ 414,586	$ 520,613	$ 560,033
Soft Cost Contingency	**$ 3,006,929**	$ -	$ -	$ -	$ -	$ 375,866	$ 375,866	$ 375,866	$ 375,866	$ 375,866	$ 375,866	$ 375,866	$ 375,866
Interim Income	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Subtotal Soft Costs	**$ 29,010,656**	**$ 7,126,701**	**$ 391,352**	**$ 425,989**	**$ 460,837**	**$ 874,047**	**$ 911,618**	**$ 2,258,760**	**$ 995,405**	**$ 1,033,714**	**$ 1,072,256**	**$ 12,242,274**	**$ 1,217,703**
Total Construction Costs	**$ 92,695,125**	**$ 12,433,740**	**$ 5,698,391**	**$ 5,733,028**	**$ 5,767,876**	**$ 6,181,086**	**$ 6,218,657**	**$ 7,565,799**	**$ 6,302,444**	**$ 6,340,753**	**$ 6,379,295**	**$ 17,549,313**	**$ 6,524,742**
Cumulative Draws		**$ 12,433,740**	**$ 18,132,132**	**$ 23,865,160**	**$ 29,633,036**	**$ 35,814,122**	**$ 42,032,779**	**$ 49,598,578**	**$ 55,901,022**	**$ 62,241,775**	**$ 68,621,070**	**$ 86,170,383**	**$ 92,695,125**

Construction Draw Schedule – Months 13-24

1700 M Street, NW   Redevelopment

	Total $	13 9/1/16	14 10/1/16	15 11/1/16	16 12/1/16	17 1/1/17	18 2/1/17	19 3/1/17	20 4/1/17	21 5/1/17	22 6/1/17	23 7/1/17	24 8/1/17
Base Building	$ 53,070,391	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ -	$ -
Office Tenant Improvements	$ 33,691,447	$ -	$ -	$ -	$ -	$ 5,036,326	$ 5,036,326	$ 5,036,326	$ 5,036,326	$ 5,036,326	$ 5,036,326	$ 1,736,744	$ 1,736,744
Retail Tenant Improvements	**$ 945,659**	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,457	$ 30,914	$ 200,941	$ 200,941	$ 248,703	$ 248,703
Subtotal Hard Costs	**$ 87,707,497**	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 5,307,039	$ 10,343,366	$ 10,343,366	$ 10,358,823	$ 10,374,280	$ 10,544,306	$ 10,544,306	$ 1,985,447	$ 1,985,447
Design and Engineering	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Fees and Permits	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Financing Fees - Construction Loan	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Insurance	**$ 509,571**	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ 50,957	$ -	$ -
Marketing	**$ 75,000**	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250
Professional Fees	**$ 270,089**	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507
Real Estate Taxes	**$ 2,654,920**	$ 1,301,432	$ -	$ -	$ -	$ -	$ -	$ 1,353,489	$ -	$ -	$ -	$ -	$ -
Reimbursable Costs	**$ 12,000**	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
Start Up Costs	**$ 730,558**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 730,558	$ -
Testing and Inspections	**$ 68,182**	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ 6,818	$ -	$ -
Development Fees/Overhead	**$ 1,942,711**	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ 194,271	$ -	$ -
Interest - Construction Loan	**$ 16,374,103**	$ 46,473	$ 46,473	$ 219,746	$ -	$ 3,796,600	$ -	$ -	$ 1,200,819	$ -	$ -	$ 11,063,991	$ -
Leasing Commissions	**$ 11,383,362**	$ 607,886	$ 648,119	$ 689,650	$ 730,098	$ 824,482	$ 896,362	$ 977,000	$ 1,057,294	$ 1,131,811	$ 1,206,780	$ 1,297,085	$ 1,316,795
Soft Cost Contingency	**$ 3,758,662**	$ 375,866	$ 375,866	$ 375,866	$ 375,866	$ 375,866	$ 375,866	$ 375,866	$ 375,866	$ 375,866	$ 375,866	$ -	$ -
Interim Income	**$ (229,544)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (159,924)	$ (69,620)
Subtotal Soft Costs	**$ 37,549,614**	$ 2,613,461	$ 1,352,262	$ 1,567,067	$ 1,387,768	$ 5,278,752	$ 1,554,032	$ 2,988,159	$ 2,915,783	$ 1,789,481	$ 1,864,450	$ 12,961,466	$ 1,276,932
Total Construction Costs	**$ 125,257,111**	**$ 7,920,500**	**$ 6,659,302**	**$ 6,874,106**	**$ 6,694,807**	**$ 15,622,117**	**$ 11,897,397**	**$ 13,346,981**	**$ 13,290,063**	**$ 12,333,787**	**$ 12,408,757**	**$ 14,946,914**	**$ 3,262,380**
Cumulative Draws		**$ 100,615,625**	**$ 107,274,927**	**$ 114,149,033**	**$ 120,843,840**	**$ 136,465,957**	**$ 148,363,355**	**$ 161,710,336**	**$ 175,000,399**	**$ 187,334,186**	**$ 199,742,943**	**$ 214,689,856**	**$ 217,952,236**

Construction Draw Schedule – Months 25-33

1700 M Street, NW   Redevelopment

	Total $	25 9/1/17	26 10/1/17	27 11/1/17	28 12/1/17	29 1/1/18	30 2/1/18	31 3/1/18	32 4/1/18	33 5/1/18
Equity Overage Funding		(25,186,076)								
Base Building	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Office Tenant Improvements	$ 10,483,852	$ 1,736,744	$ 2,326,223	$ 2,326,223	$ 2,326,223	$ 589,479	$ 589,479	$ 589,479	$ -	$ -
Retail Tenant Improvements	**$ 546,559**	$ 233,246	$ 217,789	$ 47,762	$ 47,762	$ -	$ -	$ -	$ -	$ -
Subtotal Hard Costs	**$ 11,030,411**	$ 1,969,990	$ 2,544,012	$ 2,373,986	$ 2,373,986	$ 589,479	$ 589,479	$ 589,479	$ -	$ -
Design and Engineering	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Fees and Permits	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Financing Fees - Construction Loan	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Insurance	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Marketing	**$ 50,000**	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ 6,250	$ -
Professional Fees	**$ 180,060**	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ 22,507	$ -
Real Estate Taxes	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Reimbursable Costs	**$ 8,000**	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ -
Start Up Costs	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Testing and Inspections	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Development Fees/Overhead	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest - Construction Loan	**$ 5,310,112**	$ 46,473	$ 46,473	$ 219,746	$ -	$ 3,796,600	$ -	$ -	$ 1,200,819	$ -
Leasing Commissions	**$ 12,738,375**	$ 1,511,215	$ 1,537,077	$ 1,562,969	$ 1,587,840	$ 1,619,993	$ 1,629,459	$ 1,639,040	$ 1,650,782	$ -
Soft Cost Contingency	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interim Income	**$ (2,719,254)**	$ (60,519)	$ 123,291	$ 99,104	$ 124,996	$ (714,015)	$ (681,862)	$ (672,396)	$ (937,853)	$ -
Subtotal Soft Costs	**$ 15,567,293**	$ 1,526,926	$ 1,736,599	$ 1,911,577	$ 1,742,593	$ 4,732,336	$ 977,354	$ 996,402	$ 1,943,506	$ -
Total Construction Costs	**$ 26,597,704**	**$ 3,496,917**	**$ 4,280,611**	**$ 4,285,562**	**$ 4,116,579**	**$ 5,321,815**	**$ 1,566,834**	**$ 1,585,881**	**$ 1,943,506**	**$ -**
Cumulative Draws		**$ 250,132,145**	**$ 254,412,756**	**$ 258,698,318**	**$ 262,814,897**	**$ 268,136,712**	**$ 269,703,545**	**$ 271,289,427**	**$ 273,232,932**	**$ 273,232,932**

Stabilized Assumptions

Operating Expenses:	$12.96
Real Estate Taxes:	$12.96
General Vacancy:	3% of Potential Gross Income
Parking:	414 spaces
Parking Income:	$265, growing by 3% from 2009 to 2017
Parking Expenses:	20% of Gross Revenue

Lease-up Assumptions

OFFICE

Pre-lease Floors 7th – 12th   (284,358 square feet)

Term:	15 years	Lease Commencement:	3/1/2018
Rental Rate:	$55.65 NNN	Tenant Improvements:	$81.15
Bump 6th & 11th	$1.50 & $1.25	Annual Escalation:	2.75%
Commission:	5%, years 1-10		

Pre-lease Floors 5th – 6th   (94,786 square feet)

Term:	10 years	Lease Commencement:	3/1/2018
Rental Rate:	$53.33 NNN	Tenant Improvements:	$75.35
Bump 6th	$1.00	Annual Escalation:	2.75%
Commission:	5%		

One Tenant leases Floors B-1 – 2nd and 4th   (92,025 square feet)

2nd & 4th Floor

Term:	10 years	Lease Commencement:	9/1/2018
Rental Rate:	$52.54 NNN	Tenant Improvements (4th):	$77.61
Bump 6th (4th) & (2nd)	$0.75 & $0.50	Tenant Improvements (2nd):	$74.63
Annual Escalation:	2.75%		
Commission:	5%		

1st Floor

Term:	10 years	Lease Commencement:	3/1/2018
Rental Rate:	$35.82 NNN	Tenant Improvements:	$59.70
Bump 6th	$0.50	Annual Escalation:	2.75%
Commission:		5%	

B-1

Term:	10 years	Lease Commencement:	3/1/2018
Rental Rate:	$35.82 NNN	Tenant Improvements:	$75.35
Annual Escalation:	2.75%	Commission:	5%

RETAIL

Restaurant   (8,000 square feet)

Term:	10 years	Lease Commencement:	7/1/2018
Rental Rate:	$40.57 NNN	Tenant Improvements:	$115.93
Bump 6th	$1.00	Annual Escalation:	2.50%
Commission:	5%		

Bank   (3,500 square feet)

Term:	10 years	Lease Commencement:	9/1/2018
Rental Rate:	$83.58 NNN	Tenant Improvements:	$47.76
Bump 6th	$1.00	Annual Escalation:	2.50%
Commission:	5%		

Small retail on 17th Street   (2,000 square feet)

Term:	10 years	Lease Commencement:	7/1/2018
Rental Rate:	$51.01 NNN	Tenant Improvements	$46.37
Annual Escalation:	2.50%	Commission:	5%

Small retail on M Street (2,500 square feet)

Term:	10 years	Lease Commencement:	9/1/2018
Rental Rate:	$52.54 NNN	Tenant Improvements	$47.76
Annual Escalation:	2.50%	Commission:	5%

Small retail on M Street (2,000 square feet)

Term:	10 years	Lease Commencement:	6/1/2018
Rental Rate:	$46.37 NNN	Tenant Improvements	$46.37
Annual Escalation:	2.50%	Commission:	5%

Small retail on M Street (2,000 square feet)

Term:	10 years	Lease Commencement:	5/1/2018
Rental Rate:	$46.37 NNN	Tenant Improvements	$46.37
Annual Escalation:	2.50%	Commission:	5%

1700 M STREET, NW

Stabilized Proforma

Rentable Square Footage: 612,381

	PSF	1 Dec-2018	2 Dec-2019	3 Dec-2020	4 Dec-2021	5 Dec-2022	6 Dec-2023	7 Dec-2024	8 Dec-2025	9 Dec-2026	10 Dec-2027	11 Dec-2028
INCOME												
Base Rent	$34.25	$20,975,107	$32,726,868	$33,624,190	$34,546,121	$35,493,342	$35,847,836	$36,529,368	$37,530,954	$38,560,009	$39,617,287	$41,189,464
Absorption & Turnover Vacancy	0.00	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	($3,877,904)
Recoveries	16.39	10,033,880	16,353,692	16,844,300	17,349,628	17,870,116	18,406,236	18,958,416	19,527,170	20,112,978	20,716,362	19,160,336
Parking	1.22	748,780	1,220,400	1,257,012	1,294,728	1,333,572	1,373,568	1,414,776	1,457,220	1,500,936	1,545,972	1,429,850
General Vacancy	(1.56)	(952,733)	(1,509,029)	(1,551,765)	(1,595,714)	(1,640,911)	(1,682,756)	(1,726,194)	(1,775,103)	(1,825,400)	(1,877,126)	-
Effective Gross Income	**$50.30**	**$30,805,034**	**$48,791,931**	**$50,173,737**	**$51,594,763**	**$53,056,119**	**$53,944,884**	**$55,176,366**	**$56,740,241**	**$58,348,523**	**$60,002,495**	**$57,901,746**
OPERATING EXPENSES												
Operating Expense	$12.96	$7,938,726	$8,176,888	$8,422,195	$8,674,861	$8,935,106	$9,203,160	$9,479,254	$9,763,632	$10,056,541	$10,358,237	$10,668,984
RE Taxes	12.96	$7,938,726	$8,176,888	$8,422,195	$8,674,861	$8,935,106	$9,203,160	$9,479,254	$9,763,632	$10,056,541	$10,358,237	$10,668,984
Parking Expense	0.24	$149,757	$244,082	$251,404	$258,946	$266,715	$274,716	$282,957	$291,446	$300,190	$309,195	$285,971
Total Expenses	$26.17	$16,027,209	$16,597,858	$17,095,794	$17,608,668	$18,136,927	$18,681,036	$19,241,465	$19,818,710	$20,413,272	$21,025,669	$21,623,939
NET OPERATING INCOME	**$24.13**	**$14,777,825**	**$32,194,073**	**$33,077,943**	**$33,986,095**	**$34,919,192**	**$35,263,848**	**$35,934,901**	**$36,921,531**	**$37,935,251**	**$38,976,826**	**$36,277,807**
CAPITAL EXPENDITURES												
Tenant Improvements	$0.00	-	-	-	-	-	-	-	-	-	-	6,077,225
Leasing Commissions	0.00	-	-	-	-	-	-	-	-	-	-	8,137,809
Capex Reserve	0.25	151,156	155,691	160,362	165,173	170,128	175,232	180,488	185,903	191,480	197,225	203,141
Total Capital Costs	$0.25	$151,156	$155,691	$160,362	$165,173	$170,128	$175,232	$180,488	$185,903	$191,480	$197,225	$14,418,175
CASH FLOW BEFORE DEBT SERVICE	**$23.88**	**$14,626,669**	**$32,038,382**	**$32,917,581**	**$33,820,922**	**$34,749,064**	**$35,088,616**	**$35,754,413**	**$36,735,628**	**$37,743,771**	**$38,779,601**	**$21,859,632**

Investment Returns

Three scenarios were considered: 1) Purchase the existing buildings and hold for six years then redevelop and sell upon stabilization; 2) Purchase the existing buildings (Land), redevelopment and sell at stabilization; and 3) Purchase the existing buildings (Land), redevelop, refinance at stabilization and sell after seven year hold.

Scenario 1 -Purchase the existing buildings and hold for six years then redevelop and sell upon stabilization

In this scenario, the assumptions were operate the three existing buildings individually and execute on the de-tenanting program while receiving cash flow. The cash flow was used to buy down the purchase price of the building to lower the land basis pre-development. The rents for renewals were assumed to be 15-20% below market due to the stigma that a building can develop with demolition clauses. The ground lease was assumed to be bought out at $23,800,000 or $300 FAR (7,980 square feet of land x 10 FAR) and there was an allowance of $2,250,000 for tenant buy-outs.

Capitalization	
Equity	$207.5 MM
Less: Cash Flow	$52.5 MM
Total Equity	$155.0 MM
Construction Loan with interest	$267.0 MM
Construction Costs	
Hard/ Soft	$263.5 MM
Land	$180.1 MM
Total	$443.6 MM
Lease-up Interim Income	$3.2 MM
Stabilized NOI (CY 2019)	$32,038,390

Sell Upon Stabilization

Residual Cap Rate	6.5%
Closing Costs	2.0%
Net Residual Value	$483.0 MM / $789 PSF (rentable)
Project Equity IRR	**2.74%**

Scenario 2 Purchase the existing buildings then redevelop and sell upon stabilization

In this scenario, the assumptions were to purchase three existing buildings individually at the original purchase less the previous six years income. This was done because the risk of buying empty buildings and construction risk. The ground lease was assumed to be bought out and there was an allowance for tenant buy-outs.

Capitalization	
Equity	$207.5 MM
Less: Cash Flow	$52.5 MM
Total Equity	$155.0 MM
Construction Loan with interest	$267.0 MM
Construction Costs	
Hard/ Soft	$263.5 MM
Land	$180.1 MM
Total	$443.6 MM
Lease-up Interim Income	$3.2 MM
Stabilized NOI (CY 2019)	$32,038,390
Sell Upon Stabilization	
Residual Cap Rate	6.5%
Closing Costs	2.0%
Net Residual Value	$483.0 MM / $789 PSF (rentable)

Project Equity IRR	**6.76%**

Scenario 3 Purchase the existing buildings then redevelop, refinance and sell upon stabilization

In this scenario, the assumptions were to purchase three existing buildings individually at the original purchase. The ground lease was assumed to be bought out and there was an allowance for tenant buy-outs. The building was refinanced at stabilization and sold after seven years.

Capitalization	
Equity	$207.5 MM
Construction Loan with interest	$267.0 MM
Construction Costs	
Hard/ Soft	$263.5 MM
Land	$180.1 MM
Total	$443.6 MM
Lease-up Interim Income	$3.2 MM
Stabilized NOI (CY 2019)	$32,038,390
Stabilization Value for Loan	
Net Residual Value	$483.0 MM / $789 PSF (rentable)
Refinance and Hold	
Permanent Loan Terms	63% LTV, 10/30 Amort., 7.5% (8.97% Constant)
Debt Coverage Ratio	1.15
Residual Cap Rate	7.0%
Residual Value	$537.0 MM / $878 PSF
Loan Payoff	$270.4 MM
Project Equity IRR	**6.72%**

Conclusion

Conclusion

Based on the three scenarios and the level of risk associated with a redevelopment of this size, the redevelopment is not feasible at this time. Most investors would require an IRR of least 12% to 20% for such a project. It is not recommended that the project move forward based on the projected returns are well below acceptable levels.

There are several things that need to change before the project can be feasible:

- The project stabilized net cash flow would need to increase from $52 NNN to $68 NNN an increase of $16 or 31%. This increase in net cash flow would improve the cash-on-cash development return to 10% yield on cost. The impact on Scenario 1 is 4.5% increase in IRR to 7.29%, Scenario 2 is 12.77% increase to 19.53% and Scenario 3 is 6.73% increase to 13.45%. Scenario 2 and 3 would be acceptable investment return levels.
- The length of time from purchasing the existing buildings and redeveloping them is a major problem. This is problem is not easily solved. The de-tenant process can be expensive and time consuming which can take time devoted to redeveloping the properties.
- The cost of construction and tenant build outs are extremely high. The project assumed a modest annual increase but conservatively enough to protect against a unexpected rise in construction costs.
- The current climate in the banking system and lack of liquidity in the financial markets cupped with the size of the construction loan and permanent loan were much more expensive than in the most recent past. A spread of 350 bps over the 10 year average LIBOR rate impacts the project greatly. If you decrease the spread by 150 basis points you could save close to $4 million in interest.

Appendix